



Irving Trust

Financial Markets

11/7/83

B4750-1

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Oct. 28, 1983

Financial innovation continues as a major theme in the U.S. financial markets. Innovations that affect depositors by lifting interest rate ceilings, changing reserve requirements, and reducing minimum deposit requirements make more difficult the job of monetary management. All of these regulations have been in a state of flux this year, even as the job of monetary management has gotten to be more important. The critical stage of the business cycle and the pressing concerns over the international debt problem have reemphasized the role of monetary policy in an environment of colossal government budget deficits.

It is not new to say that financial deregulation affects aspects of monetary policy, but let's look closely at the latest changes. Interest rate ceilings have been removed from time deposits of maturity greater than 31 days and less than 2½ years, giving banks greater flexibility in serving their clients in these intermediate maturity instruments. These accounts likely will draw funds from the popular MMDA accounts and from the money market mutual funds. Such deposit shifts have no obvious impact on the monetary aggregates, as all these accounts are contained in M2.

There remains a possibility, however, that some new deposits may be taken from sources outside M2 and M3. For example, some deposits might shift in from Banker's Acceptances (BAs) or U.S. Treasury Bills. Some of this type of shift occurs indirectly when balances flow out of money market mutual funds (MMMF), which then sell assets to cover the withdrawal. As MMMFs hold U.S. Treasuries, BAs', and other instruments, when balances shift out of MMMFs, there is a reduced demand for the instruments that the MMMFs hold, at least initially.

Investments that migrate directly out of BAs or Treasuries or indirectly out of MMMFs to banks' accounts do not disappear. They are redeployed by the banks. Thus the ownership of the ultimate asset changes. Through this process, known as reinvestment, banks come to hold more of the public's deposits. The banks thereby come to hold more assets which are supported by these deposits. When loan demand is slack, this means that banks themselves come to hold more U.S. government securities: very safe, very liquid, but relatively low in yield.

As banks hold more of the public's deposits, the broad money supply--M2 and M3--tends to be inflated. Yet, as the previous discussion makes clear, there is nothing particularly troublesome or inflationary about this process. This reinvestment is due to changes in the rules governing what banks can do. Indeed the narrow aggregate, M1, might even be increased temporarily, if it is used as a transactions medium for such financial transfers. Thus the bottom line is that the Fed must not only look at money growth, but must also guess at its root causes. This is why judgment is paramount in the current making of monetary policy.

Robert A. Brusca



Irving Trust

Market Yields

	10/28/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	12.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	9.50
Federal Funds	9.31	9.31	9.25
Repurchase Agreements	9.20	9.25	8.88
U.S. Treasury Issues			
Bills			
3 months	8.92	8.82	8.12
6 months	9.34	9.23	8.84
1 year	9.70	9.64	9.23
Coupons			
2 years	10.59	10.50	9.86
4 years	11.15	10.98	10.49
7 years	11.54	11.39	10.71
10 years	11.65	11.45	11.18
Long Bond	11.70	11.51	11.06
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.15	9.10	8.90
3 months	9.25	9.15	9.05
6 months	9.35	9.30	9.35
1 year	9.80	9.80	9.70
Banker's Acceptances			
1 month	9.17	9.10	8.90
3 months	9.25	9.21	9.10
6 months	9.43	9.31	9.35
Eurodollar Deposits			
1 month	9.56	9.50	9.75
2 months	9.69	9.56	10.00
3 months	9.69	9.63	10.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.24	9.14	9.02
1 month	9.25	9.19	8.94
3 months	9.21	9.21	8.81
Bank Holding Companies			
1 month	8.94	8.81	8.04
Dealer Placed:			
3 months	9.35	9.31	8.54
New AA Corporate Utility Bond	12.85	12.50	12.75
Tax Exempt			
6 month Project Notes	5.30	5.25	4.20
1 year AAA Bond	5.50	5.50	6.00
5 year AAA Bond	6.60	7.00	7.40
20 year AAA Bond	9.00	9.60	9.40

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Nov. 4, 1983

Concern has heightened and attention has focused on the failure of Congress to raise the limit on the nation's debt ceiling, currently set at nearly \$1.4 trillion. The Treasury's current outstanding debt is right at this limit, and that has led to the postponement of the last two scheduled auctions of Treasury securities. The market's concern, however, is basically one of tactics right now--there is no real concern that the debt limit won't be raised to accommodate the Treasury's necessary short-term financing needs. Rather, concern centers on the approach of year-end and the great quantity of auctions yet to come in a period disrupted by many holidays. The Treasury has already indicated that it needs to raise about another \$30 billion before year-end and has scheduled auctions for about one-half of the business days remaining between now and year-end. That is a poor tactical situation for the middlemen in the auction process, the government securities dealers.

The heavy calendar of auctions, relative to the number of working days left in the year, combines with a pronounced uncertainty over when the auctions will again be able to get under way. These factors are sufficient to explain why the long end of the market has performed poorly in recent days. However, stepping back a bit, we see that the fundamentals are such that we can be somewhat more confident in the temporary nature of the current market back-up. The Fed will wish to sustain economic growth and certainly will be reluctant to tighten policy at this juncture.

Some of the key sectors of the economy are not barreling forward as they had been. The interest sensitive sectors in particular are not doing that well. Housing starts fell sharply, by 13.5% in September, to an annual rate of 1.65 million units. Auto sales are not problematic, but they are not surging either. These are both key sectors, and the effects of their slower growth will spread to other parts of the economy. Still, there is no ominous contraction in progress; prospects for moderate growth are good. But as the initial phase of strong economic expansion subsides, some of the economic signals will be mixed. Some indicators are still strong: We posted a 0.5 percentage point decline in the rate of unemployment in October. Also, we experienced a 0.5% increase in the urban CPI for September. Together, these factors may indicate to some a stronger economy or a need to restrict money growth; I would disagree.

The potential restraining effects of high interest rates are still to be feared. The world economy needs real GNP growth here in the U.S. Thus the decline in the unemployment rate will be seen as good news and not as a signal of an economy in danger of overheating. On balance, the current wiggle upward in long-term rates has dragged up some of the short rates too--but there has been no fundamental change afoot in Fed policy. Call it mostly technical, and follow closely Congressional action on the debt ceiling--that's the impediment.

Robert A. Brusca



Irving Trust

Market Yields

	11/4/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	12.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	9.50
Federal Funds	9.31	9.31	9.25
Repurchase Agreements	9.25	9.20	9.25
U.S. Treasury Issues			
Bills			
3 months	9.09	8.92	8.01
6 months	9.45	9.34	8.70
1 year	9.94	9.70	8.99
Coupons			
2 years	10.71	10.59	9.71
4 years	11.24	11.15	10.20
7 years	11.69	11.54	10.48
10 years	11.80	11.65	10.47
Long Bond	11.90	11.70	10.69
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.25	9.15	8.85
3 months	9.45	9.25	8.95
6 months	9.55	9.35	9.10
1 year	10.00	9.80	9.50
Banker's Acceptances			
1 month	9.25	9.17	8.70
3 months	9.45	9.25	8.90
6 months	9.63	9.43	9.05
Eurodollar Deposits			
1 month	9.68	9.56	9.38
2 months	9.87	9.69	9.50
3 months	9.94	9.69	9.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.29	9.24	8.76
1 month	9.33	9.25	8.81
3 months	9.34	9.21	8.81
Bank Holding Companies			
1 month	8.94	8.94	8.68
Dealer Placed:			
3 months	9.38	9.35	8.68
New AA Corporate Utility Bond	13.20	12.85	12.00
Tax Exempt			
6 month Project Notes	5.35	5.30	4.30
1 year AAA Bond	5.30	5.50	5.50
5 year AAA Bond	6.80	6.60	7.00
20 year AAA Bond	9.10	9.00	9.30

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Financial Markets ^{11/9/83}

B4750-1

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Thursday
(Noon)

Nov. 10, 1983

In spite of the recent run-up in interest rates, the odds now must favor lower long-term rates before year-end. Near term, the outlook is clouded by uncertainty over the timing of the debt-ceiling legislation. Abstracting from this technical element--which in any event ought to be resolved soon--fundamental forces are more likely to be moving rates lower. Primarily, the level of long-term rates seems very high at the moment. Even though arguments based on the level of rates being too high (or too low) frequently are suspect, such an argument is particularly applicable at this time.

The long bond has backed up to a point where its yield has been near 11.8%, close to its peak of 12.15% in early August, when bond market conditions were at their worst. At that time, the monetary aggregate M1 was still above its monitoring range and was giving no signs of behaving. Fed funds rates hovered at 9.75% for a time, and the trend in rates clearly had been upward. The Fed was widely believed to be tightening its policy, with further tightening feared by many. These money market conditions are much different from those that currently prevail--even though the levels of long-term rates are similar.

The most obviously different element is that the Fed funds rate is lower, near the level of 9.38% to 9.25%. Also, M1 is very well behaved and might even break through the bottom of its growth range. Under such circumstances, the market does not see Fed tightening as its worst problem, particularly as the Fed funds rate has been trending downward since early August. Furthermore, bank reserve data indicate that the Fed has taken a much more accommodative stance in the money market. The Fed has not been so lenient that one could say that it is pushing rates down, but the Fed stopped tightening and clearly is fostering stable rates at a lower level, even if it is not prepared to do more at the moment.

Skeptics still may hold that the market has more to fear than just the Fed--and that is true. However, it is rare for long rates to rise unaccompanied by short rates. The current rise in rates, except for Fed funds, has been led by the long end and has pulled up the short end. The failure of the funds rate to validate the rise in market rates argues for the temporary nature of the rise. Economic recovery is still too new to give credence to fears that crowding out effects are setting in and forcing rates higher. Moreover, long-term rates are extraordinarily high for this point in the business cycle. The Fed has been implementing a very forward-looking policy throughout this recovery, and that is unlikely to mean that rates will rise again from these levels. Thus the configuration of longer-term market rates is likely to be reestablished off of the current level for Fed funds. A heavy calendar of Treasury auctions may slow down this adjustment, but I don't think it will stop it. And, even though the economy has been very strong, I don't believe that strength will continue without lower interest rates: Medium term, economic performance is the key; short term, events remain dominated by technical factors.

Robert A. Brusca



Irving Trust

Market Yields

	11/10/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	12.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	9.50
Federal Funds	9.38	9.31	9.50
Repurchase Agreements	9.25	9.25	9.13
U.S. Treasury Issues			
Bills			
3 months	9.08	9.09	8.48
6 months	9.48	9.45	8.92
1 year	9.85	9.94	9.15
Coupons			
2 years	10.66	10.71	9.81
4 years	11.22	11.24	10.29
7 years	11.71	11.69	10.58
10 years	11.92	11.80	10.54
Long Bond	11.84	11.90	10.42
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.20	9.25	8.95
3 months	9.35	9.45	9.10
6 months	9.55	9.55	9.30
1 year	9.95	10.00	9.75
Banker's Acceptances			
1 month	9.20	9.25	8.85
3 months	9.42	9.45	8.90
6 months	9.55	9.63	8.95
Eurodollar Deposits			
1 month	9.63	9.68	9.63
2 months	9.81	9.87	9.75
3 months	9.88	9.94	9.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.29	9.29	8.89
1 month	9.35	9.33	8.94
3 months	9.49	9.34	8.81
Bank Holding Companies			
1 month	9.25	8.94	7.91
Dealer Placed:			
3 months	9.49	9.38	8.41
New AA Corporate Utility Bond	13.10	13.20	11.90
Tax Exempt			
6 month Project Notes	5.40	5.35	4.00
1 year AAA Bond	5.30	5.30	5.50
5 year AAA Bond	6.80	6.80	7.00
20 year AAA Bond	9.20	9.10	9.40

This information represents prevailing market yields.
It should not be construed as an offering.
 All yields are on the offered side of the market.

Cable Address:
 "IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
 W.U.I. 62832 • French 82629



Irving Trust

Financial Markets

11/23/83
B4750-1A

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Nov. 18, 1983

This Tuesday, as the FOMC was meeting, presidential spokesman Larry Speakes warned the Fed about M1's current slow rate of growth. The White House statement registered hope that the recent decline in M1, to a level below the bottom of its growth range, did not reflect a change in Fed policy. The Administration called for the Fed to boost M1 back into its "target range." Press reports of this statement were quick to mention the upcoming presidential election campaign. According to Assistant Treasury Secretary Manuel Johnson, the Treasury is concerned with hitting the monetary targets now while politics is not as much of a factor. But does the statement by the White House reflect true concern or pure politics?

In fairness to the White House, the statement reflects a symmetrical policy. Administration spokesmen have criticized the Fed for excessive as well as deficient money growth. Monetarists within the Administration have been rather vocal on the issue of stable money growth throughout the Reagan presidency. Nonetheless, last week was the first time in well over a year that M1 has been below one of its publicly announced long-term or short-term targets. The White House wasted no time in seizing the moment to criticize the Fed. Indeed, it had to act fast as this week's M1 number is widely expected to boost M1 back into the growth range.

At issue here is the relevance of the Fed's new monitoring range. First, the Administration must remember that M1 no longer is "targeted"; it is monitored. Next, the Administration must recall the substantial shift in the M1 range that occurred at mid-year. These two points are not unrelated; indeed, they are at the core of the difficulty in deciding whether or not below-range M1 growth is a problem. For my part, I don't think it is.

Financial innovation--deregulation--shifted a lot of M1's growth into the early part of the year. Thus the recent slowdown in M1's growth still has it above its original target for this year. What this underscores is that the Fed may have made a tactical error in resetting the M1 growth range at mid-year. The worst case for Fed credibility would be to hit the old target with the economy still registering decent rates of growth. Such a result is not out of the question. Quite apart from that, the Fed is treating the new monitoring range as it said it would: as a less important intermediate target. Fed policy is being based on what the real economy needs--and for now, that's not more stimulus.

The Fed has forgotten about the old target and is less concerned about the new M1 range. The Administration faces an election year and is filled with monetarists. Thus we can confidently forecast more tiffs between the Administration and the Fed as the election draws near.

Robert A. Brusca



Irving Trust

Market Yields

	11/18/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	12.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	9.50
Federal Funds	9.25	9.38	9.00
Repurchase Agreements	9.00	9.25	8.88
U.S. Treasury Issues			
Bills			
3 months	9.15	9.08	8.34
6 months	9.56	9.48	8.63
1 year	9.87	9.85	8.98
Coupons			
2 years	10.66	10.66	9.73
4 years	11.20	11.22	10.21
7 years	11.64	11.71	10.53
10 years	11.72	11.92	10.40
Long Bond	11.80	11.84	10.32
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.30	9.20	8.85
3 months	9.45	9.35	8.95
6 months	9.60	9.55	9.05
1 year	10.05	9.95	9.40
Banker's Acceptances			
1 month	9.35	9.20	8.90
3 months	9.47	9.42	9.00
6 months	9.65	9.55	9.05
Eurodollar Deposits			
1 month	9.63	9.63	9.56
2 months	9.94	9.81	9.63
3 months	10.00	9.88	9.81
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.19	9.29	8.63
1 month	9.33	9.35	8.94
3 months	9.49	9.49	8.94
Bank Holding Companies			
1 month	8.94	9.25	8.81
Dealer Placed:			
3 months	9.47	9.49	8.68
New AA Corporate Utility Bond	13.00	13.10	11.80
Tax Exempt			
6 month Project Notes	5.35	5.40	4.85
1 year AAA Bond	5.50	5.30	5.50
5 year AAA Bond	7.20	6.80	7.00
20 year AAA Bond	9.35	9.20	9.50

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

**Friday
(Noon)**

Nov. 25, 1983

The FOMC report issued by the Fed last Friday (Nov. 18) contained elements of surprise for most financial markets participants. Notably, the Fed eased policy. This, however, was no great surprise to a market that had seen Fed funds fall from 9 3/4% to around 9 1/8%. What is surprising is the discovery that the Fed had eased its policy in the inter-meeting period between Aug. 23 and Oct. 4. Moreover, the Fed had eased by Oct. 7, when it released the notes on the Aug. 23 meeting, but it chose not to tell us about this easing until Nov. 18. Why did the Fed wait so long to tell us this, and why haven't the markets reacted better to news that the Fed has eased?

Earlier this year, the Fed had announced that a special telephone conference had been arranged by the FOMC, and that the conference had resulted in a decision to tighten policy modestly. That special conference fell on June 23, and its occurrence was announced to the public on July 15 (three weeks later), when the FOMC report for the May 24 meeting was published. In view of this precedent, the Fed's making us wait at least seven weeks is interesting. Also the Fed failed to pinpoint the date when the easing began. One can infer from the late disclosure that the Fed was not very aggressive in its move, since it masked its actions for as long as possible.

A study of the reserve data for the inter-meeting period is not very helpful in pinpointing the date of the easing. Indeed, the largest swing in weekly Fed funds rates (aside from clear quarter-end pressures) occurred in the very week when the August meeting was held (minus 26 basis points)! However, the week ended Sept. 7 showed the first net free reserve figure we had seen in a long time, so it likely marks the point of easier policy. From then on (except the week ended Sept 21, when technical tax payment problems boosted net borrowings over \$1 billion), the net borrowed positions generally declined. The reduction of day-to-day reserve pressure by the Fed was, however, very modest, and the weekly net borrowed/free statistics were erratic, settling down only after the Oct. 4 meeting at which no policy change was made.

Yet the markets' failure to pounce on this good news of easing and rally has strong roots in reality. Reserve data for the most recent two weeks make policy look much tighter than it has been since late August. Possibly the Fed has encouraged rates down as low as it intends. It appears to have miscalculated in its assessment of when the economy would cool off. Fed justification for easing in mid-September was that growth in the economy was moderating. But third-quarter GNP came in at 7.9% (7.7% revised). I don't think the Committee had expected growth to be that strong. The FOMC seems to have stumbled in trying to anticipate the start of a weakening in the pace of the expansion. Now that the economy seems so resilient, the Fed must consider whether it should hold rates here or encourage further declines. Recent reserve figures are harbingers of a rate plateau; but the market is holding. It remains—properly—cautiously optimistic.

Robert A. Brusca



Irving Trust

Market Yields

	11/25/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	9.00
Federal Funds	9.25	9.25	8.25
Repurchase Agreements	8.88	9.00	8.25
U.S. Treasury Issues			
Bills			
3 months	9.11	9.15	8.25
6 months	9.48	9.56	8.68
1 year	10.11	9.87	9.08
Coupons			
2 years	10.50	10.66	9.79
4 years	11.13	11.20	10.35
7 years	11.50	11.64	10.69
10 years	11.75	11.72	10.58
Long Bond	12.00	11.80	10.50
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.20	9.30	8.40
3 months	9.25	9.45	8.60
6 months	9.45	9.60	8.95
1 year	10.05	10.05	9.30
Banker's Acceptances			
1 month	9.20	9.35	8.40
3 months	9.35	9.47	8.65
6 months	9.47	9.65	8.95
Eurodollar Deposits			
1 month	9.50	9.63	9.00
2 months	9.81	9.94	9.50
3 months	9.88	10.00	9.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.01	9.19	8.26
1 month	9.25	9.33	8.42
3 months	9.44	9.49	8.68
Bank Holding Companies			
1 month	9.30	8.94	8.42
Dealer Placed:			
3 months	9.39	9.47	8.41
New AA Corporate Utility Bond	12.90	13.00	11.95
Tax Exempt			
6 month Project Notes	5.45	5.35	4.55
1 year AAA Bond	5.50	5.50	5.25
5 year AAA Bond	7.25	7.20	7.30
20 year AAA Bond	9.40	9.35	9.00

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Dec. 2, 1983

Recent policymaking at the Fed has been conducted in a very rarefied atmosphere. FOMC notes (released Nov. 18) indicate that the Fed eased its policy sometime between late August and early October. Yet over the last three weeks, net borrowed reserve figures indicate a desire for greater tightness on the part of the Fed—but wait, there's more! Over the last two weeks, Fed funds have persisted in trading 12 basis points below their earlier levels. Such activities can have no other impact than to thoroughly confuse market participants. Can there be any explanation for such seemingly inconsistent actions?

There is an explanation; part of it was given in last week's "Financial Markets" letter: The Fed had eased expecting the economy to cool off, but the economy hasn't obliged. So now interest rates are at levels the Fed thought would be consistent with a weaker economy. Having made a forecast error, the Fed was (and is) faced with the dilemma of what to do about it. The closely watched net borrowed reserve figures have been fairly clear on one aspect of this: The Fed is not continuing to ease as it had been doing.

Although the seven-day reserve figures have clearly pointed to greater tightness, the Fed has failed to squeeze the day-to-day Fed funds market as tightly as the weekly average figures might indicate. Thus the Fed has used the seven-day reserve figures to operate on market psychology. By forcing the bulk of the net borrowings to fall late in the week, usually on Wednesday, the Fed funds market is not as tight Thursday through Tuesday as the seven-day reserve figures indicate. This explains why Fed funds rates can ease even in the presence of greater weekly (average) net borrowings.

Market participants have an intuitive understanding of these procedures. Thus when the larger net borrowed figures appeared unaccompanied by firmer rates, the subtle signal came to be understood to mean that—at best—there was to be a cessation of easing. But the extreme subtlety, or tentativeness, of Fed policy allowed rates to slip lower for the weeks ended Nov. 23 and Nov. 30. Thanksgiving was a problem because it meant the Fed could not force high borrowings on Wednesday (Nov. 23) unless it wanted to start out the next week in a reserve deficient position—a very aggressive move. On balance, the Fed seems to be using the reserve figures to send a warning, but it is being much more careful with the day-to-day liquidity needs of the Fed funds market. The Fed may have eased "too soon," but now its policies are on hold and the economy is in the spotlight. The more robust the economy, the more the Fed's day-to-day reserve positions will come to resemble what is indicated by the seven-day reserve figures. Still the Fed will be tilted toward caution this holiday season, even if the economic statistics of November and December look good.

Robert A. Brusca



Irving Trust

Market Yields

	12/2/83(Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00	11.00%	11.50
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	9.00
Federal Funds	9.50	9.25	8.88
Repurchase Agreements	9.40	8.88	8.75
U.S. Treasury Issues			
Bills			
3 months	9.22	9.11	8.14
6 months	9.64	9.48	8.72
1 year	9.99	10.11	9.07
Coupons			
2 years	10.73	10.50	9.70
4 years	11.26	11.13	10.30
7 years	11.64	11.50	10.58
10 years	11.70	11.75	10.46
Long Bond	11.75	12.00	10.47
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.30	9.20	8.50
3 months	9.40	9.25	8.65
6 months	9.60	9.45	8.80
1 year	10.15	10.05	9.20
Banker's Acceptances			
1 month	9.33	9.20	8.50
3 months	9.47	9.35	8.65
6 months	9.69	9.47	8.90
Eurodollar Deposits			
1 month	9.75	9.50	9.31
2 months	9.81	9.81	9.50
3 months	9.88	9.88	9.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.29	9.01	8.76
1 month	9.33	9.25	8.68
3 months	9.49	9.44	8.68
Bank Holding Companies			
1 month	8.94	9.30	7.65
Dealer Placed:			
3 months	9.44	9.39	8.41
New AA Corporate Utility Bond	13.00	12.90	12.00
Tax Exempt			
6 month Project Notes	5.50	5.45	4.85
1 year AAA Bond	5.50	5.50	5.00
5 year AAA Bond	7.45	7.25	7.00
20 year AAA Bond	9.40	9.40	9.50

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

12/14/83 84750-1
Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Dec. 9, 1983

Lack of clarity about the direction of Fed policy frequently is accompanied by unsettled conditions in the financial markets. Yet this lack of clarity is not uncommon. The Fed--necessarily--moves from tightening to easing, and easing to tightening, in gradual steps. These steps are not particularly definable, although certain characteristics of the process can be identified. Moreover, market participants undoubtedly detect far more Fed tightenings and easings than the Fed itself intends. These participants might ask why Fed policy isn't more clearly articulated. Why indeed?

The answer really is not so difficult to divine. Because the Fed is so powerful--because monetary policy is so important--the Fed is a careful custodian. But this statement has no clear implication: A plodding and reactive monetary policy can be just as damaging as an overly aggressive one. Thus the Fed generally tries to err on the side of ease or tightness that will least damage the economy if the policy turns out to have been wrong in light of subsequent events. Earlier this year, the Fed erred on the side of tightness. While rates did not soar, they did begin to firm up in May, before even the Fed could be sure of the strength of recovery. The Fed's actions were based on fear of inflation (fast M1 growth) and the hope that the recovery would not be aborted. Subsequently the Fed eased, out of concern about the sustainability of economic recovery. The question now is: What does the Fed fear the most?

Right now, the Fed has no "greatest fear," so its policy is balanced and directionless. Some FOMC members clearly fear inflation and are talking publicly about the dangers. Others, while not as vocal, fear for the continuation of recovery. Therefore the FOMC has no consensus, and it acts more cautiously. Earlier this year, we saw the FOMC act in the absence of a consensus. In a split vote, it moved to tighten in mid-May, and rates rose 40 basis points amid erratic net free to net borrowed reserve figures. But once the FOMC obtained a consensus (on June 23 in a telephone conference), the reserve figures clarified and joined the pattern previously established by the Fed funds rate. Operationally, the Fed engineered the tightening (after May 18) by moving from a policy of leaving Wednesday in a position of net borrowed reserves to making it net free and putting the earlier part of the statement week in a net borrowed position. This procedure makes the market less liquid Thursday-Tuesday than the weekly reserve figures indicate. Yet, it does not necessarily change the pattern of average weekly reserves, even though it results in more pressure on the Fed funds rate.

For now, the Committee appears to have reversed this procedure. The highly publicized net free-net borrowed statistics indicate more tightness than the Fed actually is putting on the day-in and day-out market because much of the pressure comes on Wednesday. There seems to be no consensus within the FOMC to tighten, but there is a willingness to send a signal of caution. Remembering that the FOMC is a committee, we must come to understand its policy as the result of collective action. Having tightened in mid-May and eased three to four months later, it's not impossible that the Fed would tighten again now (two to three months after the easing). Yet this seems unlikely because monetary growth has been within bounds, and the pace of recovery is slowing. In this cycle, the second consensus to tighten may be harder to get.

Robert A. Brusca

**Irving Trust****Market Yields**

	12/9/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	9.00
Federal Funds	9.44	9.50	8.88
Repurchase Agreements	9.40	9.40	8.75
U.S. Treasury Issues			
Bills			
3 months	9.33	9.22	8.23
6 months	9.74	9.64	8.76
1 year	10.08	9.99	9.02
Coupons			
2 years	10.82	10.73	9.78
4 years	11.38	11.26	10.47
7 years	11.79	11.64	10.78
10 years	11.86	11.70	10.59
Long Bond	11.93	11.75	10.54
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.55	9.30	8.60
3 months	9.65	9.40	8.80
6 months	9.95	9.60	9.00
1 year	10.45	10.15	9.40
Banker's Acceptances			
1 month	9.52	9.33	8.60
3 months	9.75	9.47	8.80
6 months	9.94	9.69	9.10
Eurodollar Deposits			
1 month	10.19	9.75	9.56
2 months	10.19	9.81	9.63
3 months	10.25	9.88	9.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.53	9.29	8.76
1 month	9.66	9.33	8.81
3 months	9.60	9.49	8.68
Bank Holding Companies			
1 month	9.19	8.94	7.65
Dealer Placed:			
3 months	9.73	9.44	8.81
New AA Corporate Utility Bond	13.20	13.00	12.00
Tax Exempt			
6 month Project Notes	5.55	5.50	4.90
1 year AAA Bond	6.00	5.50	5.25
5 year AAA Bond	7.25	7.45	7.00
20 year AAA Bond	9.25	9.40	9.50

This information represents prevailing market yields.
 It should not be construed as an offering.
 All yields are on the offered side of the market.

Cable Address:
 "IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
 W.U.I. 62832 • French 82629



Irving Trust

 Irving Trust Company
 One Wall Street
 New York, NY 10015

 Economic Research &
 Planning Division

 Friday
 (Noon)

Dec. 16, 1983

The level of a bond's yield--by itself--is not enough to recommend a bond purchase, as financial markets experts know. While everyone wants to buy bonds cheap (when yields are high) and sell them dear (when yields are low), arguments based on yields alone do not suffice. Too often, markets have taken an undervalued asset and undervalued it further. Frequently, the judgment that an asset is priced too cheap takes longer than anticipated to be borne out. Since many participants are involved for the short-term gains the market can provide, advice based on longer-term fundamentals often is eschewed. Nonetheless, bonds do look like they are underpriced. Let's see why.

As I have already said, a look at yields alone does not suffice. So let's go back to August, the time when the current 12% coupon long bond was born. Those times were scarier than these. The Fed was then in the process of watching M1 grow at a rate well above the top of its growth range. This had happened to the Fed's previous two targets, causing the Fed to scrap the second one and reestablish the new monitoring range: the very one that M1 was failing to fall within in early August. As the economy was clipping along quite nicely and the Fed had been consistently allowing a nudging up of the Fed funds rate, it made some sense for the markets to be worried about rates. Thus the auction of the new long bond in August produced a 12% coupon.

These times should not hold the same fears. Yet, the long-term markets are priced just as "fearful" as they were back in August. M1 is now below the bottom of that same range it had been above in August. While it's true that this Friday (Dec. 16) should bring a large increase in M1 (approx. \$5.5 billion), M1 is \$2.1 billion below the bottom of its growth cone, so (given that the bottom of the cone grows about \$0.6 billion per week) such an increase would leave M1 \$2.8 billion above the bottom—not a very worrisome situation, certainly not fearful.

Moreover, the Fed hardly seems as positioned to force rates up now as it did back in August. Granted, M1 is not the only thing that matters. Yet the Fed's actions this year are better understood by looking at nothing else: Trying to explain the Fed's actions over the course of this year by tracking other aggregates would have been more confusing than helpful. Yes, the Fed is looking at the economy—which has fooled it once already this year. But this does not argue for higher rates as much as it might argue for a continued firmness (a plateau). Besides, the market has already tightened so much, the Fed does not need to do more. Indeed, long-term rates are already so high the Fed might even prefer to see them fall somewhat before putting more pressure on overnight rates. Although the economy looks fine now, let's not forget that interest rates are very high relative to current inflation. Economic weakness has a nasty habit of showing up when least expected and without invitation. The Fed knows that the high rates of this year have been invitation enough.

Robert A. Brusca



Irving Trust

Market Yields

	12/16/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.75	9.44	8.75
Repurchase Agreements	9.70	9.40	8.75
U.S. Treasury Issues			
Bills			
3 months	9.47	9.33	8.02
6 months	9.82	9.74	8.43
1 year	10.07	10.08	8.74
Coupons			
2 years	10.84	10.82	9.58
4 years	11.43	11.38	10.11
7 years	11.84	11.79	10.71
10 years	11.88	11.86	10.58
Long Bond	11.95	11.93	10.67
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.05	9.55	8.70
3 months	10.00	9.65	8.70
6 months	10.10	9.95	8.85
1 year	10.80	10.45	9.25
Banker's Acceptances			
1 month	10.22	9.52	8.70
3 months	10.24	9.75	8.75
6 months	10.37	9.94	8.95
Eurodollar Deposits			
1 month	10.63	10.19	9.56
2 months	10.56	10.19	9.56
3 months	10.56	10.25	9.69
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.90	9.53	8.63
1 month	10.12	9.66	8.68
3 months	9.78	9.60	8.54
Bank Holding Companies			
1 month	9.45	9.19	7.40
Dealer Placed:			
3 months	10.24	9.73	8.41
New AA Corporate Utility Bond	13.20	13.20	12.40
Tax Exempt			
6 month Project Notes	5.60	5.55	4.70
1 year AAA Bond	5.80	6.00	5.00
5 year AAA Bond	7.45	7.25	6.70
20 year AAA Bond	9.80	9.25	9.20

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

**Friday
(Noon)**

Dec. 23, 1983

As the calendar year draws to a close, the various financial houses tally their profits and reflect upon the year nearly gone by. The year was filled with events of financial innovation, financial distress (particularly with several LDCs), and a markedly different monetary policy by the Federal Reserve. One can convincingly argue that Fed policymaking has changed in part because of the other two elements: financial distress and innovation. Let's take a brief look at such an argument.

First, recall that the Fed had embarked on a new course of policymaking in October of 1979. Under that policy, monetary aggregates pushed interest rates out of the limelight. Operationally, this meant that the Fed would emphasize the reserves required by the banking system to keep the Fed's prime aggregate (M1) within its target range. When M1 grew too fast, the banking system would require more reserves to support the higher level of money balances. The Fed would respond by not accommodating the banks' excessive reserve demands of this type. Thus borrowings at the Fed window would be (more or less) automatically triggered and pressure on interest rates would also follow almost automatically from above-target money growth.

The most casual of retrospectives on 1983 would indicate a total absence of this type of automaticity. The Fed ran what I would call an organic monetary policy in response to the uncertainties of the time: Financial innovation meant that money growth per se did not send a clear signal—monetary targeting itself became less meaningful; and financial distress, both at home and abroad, meant that the Fed could not be as indifferent to interest rate swings as it had been in the past. Thus the second phase of monetary policymaking under aggregates targeting has different characteristics from those it displayed in its infancy—this is not surprising.

While in its infancy, strict monetary targeting had to establish its credibility. This was done through the unprecedented interest rate volatility in 1980. Afterward this credibility became a liability of sorts. Having once raised interest rates well above historic peak levels, the Fed might do this again. Thus the Fed has had to become more pragmatic and eclectic because the market came to respect the Fed even more than it had in the past—and rightly so. At the same time, financial innovation made it much less clear how the Fed should respond to money growth. So with the market even more tightly focused on the Fed, it has had to be much more careful that its own response is correct.

The Fed's own lack of certainty has, in 1983, led it to introduce a credit measure as an added element to its batch of targeted aggregates. At the same time, the Fed has watered down M1 by changing the target at mid-year, calling it a monitoring range, and making Fed response to M1 conditional upon its "velocity" characteristics. Taken to the extreme, this approach throws targeting out the window. Reserve requirements on deposits contained in M2 and M3—but not in M1—are such a small factor in the short run as to not affect monetary policy. Technical factors involved with monetary innovation are one reason for the Fed's greater caution and lesser reliance on M1 alone. But so is the realization that the world economy is sensitized to changes in U.S. interest rates. We have yet to see which of these factors dominates the thinking within the FOMC.

Robert A. Brusca



Irving Trust

Market Yields

	12/23/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.00	9.75	8.75
Repurchase Agreements	9.00	9.70	8.75
U.S. Treasury Issues			
Bills			
3 months	9.22	9.47	8.02
6 months	9.68	9.82	8.43
1 year	10.06	10.07	8.74
Coupons			
2 years	10.82	10.84	9.58
4 years	11.29	11.43	10.11
7 years	11.68	11.84	10.71
10 years	11.75	11.88	10.58
Long Bond	11.84	11.95	10.67
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.75	10.05	8.70
3 months	9.75	10.00	8.70
6 months	9.85	10.10	8.85
1 year	10.15	10.80	9.25
Banker's Acceptances			
1 month	10.02	10.22	8.70
3 months	10.19	10.24	8.75
6 months	10.45	10.37	8.95
Eurodollar Deposits			
1 month	10.25	10.63	9.56
2 months	10.25	10.56	9.56
3 months	10.25	10.56	9.69
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.89	9.90	8.63
1 month	9.91	10.12	8.68
3 months	9.71	9.78	8.54
Bank Holding Companies			
1 month	8.94	9.45	7.40
Dealer Placed:			
3 months	10.03	10.24	8.41
New AA Corporate Utility Bond	13.15	13.20	12.40
Tax Exempt			
6 month Project Notes	5.55	5.60	4.70
1 year AAA Bond	5.80	5.80	5.00
5 year AAA Bond	7.25	7.45	6.70
20 year AAA Bond	9.40	9.80	9.20

This information represents prevailing market yields.
It should not be construed as an offering.
 All yields are on the offered side of the market.

Cable Address:
 "IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
 W.U.I. 62832 • French 82629



Irving Trust

113784 84750-1
Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Dec. 30, 1983

The notes from the FOMC meeting held November 14 and 15 were released last Friday (Dec. 23); they proved to be a disappointing Christmas present. No new policy was announced at the meeting. Therefore the last operative policy statement by the FOMC is from the October 4 meeting. That statement had directed open market operations toward maintaining the slightly reduced reserve restraint that had been sought just prior to that meeting. As of November 15, all members of the FOMC "found acceptable" a continuation of that policy. More ominously, however, Committee members seemed to be first concerned with the possibility of a continued strong economy. Thus the FOMC notes speak first of the possibility of a small precautionary step toward tightening.

One interesting feature of the report on the FOMC meeting is the clear distinction drawn between what the FOMC's staff has projected and what FOMC members themselves believe. The staff projects a slowing in the growth rate of real GNP. Less stimulus is expected from inventory rebuilding and housing; consumer spending is expected to slow. A continued decline in the unemployment rate is projected, and inflationary pressures are expected to remain moderate in 1984.

However, FOMC members note in their general discussion that the economic expansion has already remained stronger than "generally anticipated." Business optimism and consumer confidence are still high. While all FOMC members expected the rate of economic growth to moderate over the year ahead, differences exist over the timing and likely extent of the slowdown. Some members anticipated that the slowdown might be appreciably less than projected by the staff. Indeed, other members had the opposite concerns as policy remained unchanged.

Thus we can see that--at the time of the meeting--views were divided within the FOMC. Furthermore, the Committee had been surprised by the vigorous growth in the economy. The near-term misjudgment on the strength of recovery probably did nothing to help the credibility of the FOMC's staff forecast of an economic slowdown to come. Moreover, the continued strength in the economy since the November meeting has probably strengthened the hand of the skeptics. Because the Committee moved so quickly to ease late in the third quarter, it will now probably be less anticipatory and more reactive. Thus, given subsequent events, policy probably has firmed since the November meeting, even if it's not by enough for "firming" to be registered as a formal pronouncement. Yet, whether declared formally or not, weak growth in M1 greatly restrains the Fed's ability to firm policy if it so chooses.

Thus the stage is set for next year. And, given the way in which monetary targets normally are set (fourth-quarter average to fourth-quarter average), M1 will almost certainly start next year well below its target. This will be an important factor affecting policy early in the year. Afterward, money growth could become a problem again. You will be hearing more about M1's velocity as a policy factor next year because it appears to be behaving more normally. This also means that the Fed will be more concerned by any small excess in money growth than was the case this year. The Fed will put more weight on its credit aggregate next year. "Contemporaneous reserve accounting" will make it more difficult for the Fed to implement policy and for us to read it. But that's a problem for next year; have a Happy New Year!

Robert A. Brusca



Irving Trust

Market Yields

	12/29/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.75	9.00	11.20
Repurchase Agreements	10.00	9.00	N.A.
U.S. Treasury Issues			
Bills			
3 months	9.33	9.22	8.19
6 months	9.71	9.68	8.41
1 year	10.06	10.06	8.68
Coupons			
2 years	10.84	10.82	9.48
4 years	11.36	11.29	N.A.
7 years	11.75	11.68	10.32
10 years	11.79	11.75	10.36
Long Bond	11.86	11.84	10.43
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.65	9.75	9.12
3 months	9.65	9.75	8.64
6 months	9.65	9.85	8.64
1 year	10.10	10.15	N.A.
Banker's Acceptances			
1 month	9.90	10.02	N.A.
3 months	9.65	10.19	8.86
6 months	9.67	10.45	8.89
Eurodollar Deposits			
1 month	9.81	10.25	N.A.
2 months	9.88	10.25	N.A.
3 months	9.94	10.25	N.A.
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.96	8.89	N.A.
1 month	9.71	9.91	9.05
3 months	9.71	9.71	8.88
Bank Holding Companies			
1 month	9.45	8.94	N.A.
Dealer Placed:			
3 months	9.94	10.03	N.A.
New AA Corporate Utility Bond	12.88	13.15	N.A.
Tax Exempt			
6 month Project Notes	5.50	5.55	N.A.
1 year AAA Bond	5.50	5.80	N.A.
5 year AAA Bond	7.25	7.25	N.A.
20 year AAA Bond	9.30	9.40	N.A.

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Financial Markets

B4750-1

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Jan. 6, 1984

The new year in the financial markets has begun well. The stock market has been rising; the dollar has strengthened to rather astonishing levels; and short-term interest rates have moved down from recent peaks. The major factors behind these developments have been signs of continued but more moderate economic growth and weak growth in M1. Soon, however, the economy's signals may become more mixed. For example, the second year of economic recovery frequently brings sporadic signs of weakness in industrial production and in other indicators. Such signs will be more troublesome than usual this time because 1984 is a presidential election year.

While the Fed always makes policy in a "fish bowl," this factor becomes dominant during election periods. This does not necessarily mean that the Fed becomes more accommodative, but it does have implications for policymaking. The greater degree of scrutiny means that the Fed is under greater pressure to justify fully the policies it pursues. Thus the highly discretionary policy of 1983 might be more difficult to implement in 1984. If the economy shows some signs of waffling by registering a month or two of declines in industrial production, the Fed might find itself under greater pressure to ease than it would in other circumstances. Conversely, if money growth were excessive again this year, the Fed might find it more difficult to tighten because of the political pressures. Election year pressures are generally asymmetrically tilted toward nudging the Fed to be easier rather than to hit its targets at any cost.

Realizing this, the Fed has an interesting policy dilemma for 1984. First, the Fed has already adopted a more discretionary overall ideology. The establishment of a broad credit aggregate last year necessarily meant a greater role for discretion because a credit target--by its very nature--focuses the Fed more on interest rates than does just a money target: Yet for 1984, a discretionary policy will be more risky. Second, discretion or no discretion, most observers focus on M1 as the Fed's most important aggregate. So the Fed will be concerned with setting a viable target for M1 this year. Because of the asymmetric nature of pressure on the Fed, the least risky thing for it to do this year would be to lower the top of the M1 growth range. The current preliminary range allows too much money growth if there is a resurgence in velocity. Let's see why this is so.

Suppose the Fed leaves the M1 range unchanged at 4%-8% growth. If velocity picks up to a normal pace of 3%, the top of the growth range would imply too much growth in nominal GNP: 11%. With 8% money growth and a fast growing economy, the Fed would like to tighten in 1984, but M1 would still be inside its target. Thus, tightening would bring a great deal of pressure on the Fed. On the other hand, if the Fed set the target lower, but found that velocity did not grow, discretion would mean refraining from raising rates: not a position of great pressure.

The February FOMC meeting takes on great importance this year because at this meeting 1984's targets are approved. The FOMC's targets will help to define how the Fed will deal with the risks of the policy environment and set the stage for 1984.

Robert A. Brusca



Irving Trust

Market Yields

	1/6/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.38	9.75	8.25
Repurchase Agreements	9.38	10.00	8.25
U.S. Treasury Issues			
Bills			
3 months	9.25	9.33	8.13
6 months	9.67	9.71	8.29
1 year	9.96	10.06	8.58
Coupons			
2 years	10.75	10.84	9.34
4 years	11.31	11.36	9.88
7 years	11.71	11.75	10.29
10 years	11.77	11.79	10.34
Long Bond	11.85	11.86	10.44
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.38	9.65	8.30
3 months	9.45	9.65	8.35
6 months	9.68	9.65	8.40
1 year	10.10	10.10	8.85
Banker's Acceptances			
1 month	9.42	9.90	8.25
3 months	9.47	9.65	8.30
6 months	9.69	9.67	8.40
Eurodollar Deposits			
1 month	9.69	9.81	8.88
2 months	9.88	9.88	8.88
3 months	9.94	9.94	8.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.45	9.96	6.09
1 month	9.50	9.71	8.17
3 months	9.55	9.71	8.54
Bank Holding Companies			
1 month	9.19	9.45	8.17
Dealer Placed:			
3 months	9.60	9.94	8.54
New AA Corporate Utility Bond	13.00	12.88	12.25
Tax Exempt			
6 month Project Notes	5.45	5.50	4.65
1 year AAA Bond	5.60	5.50	5.25
5 year AAA Bond	7.15	7.25	6.20
20 year AAA Bond	9.20	9.30	8.90

This information represents prevailing market yields.
It should not be construed as an offering.
 All yields are on the offered side of the market.

Cable Address:
 "IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
 W.U.I. 62832 • French 82629



Irving Trust

1/13/84 B4750-1
Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Jan. 13, 1984

The Federal Reserve has done a remarkable job of stabilizing the Fed funds rate since the end of the third quarter of 1983. With just a few exceptions, the effective funds rate has ranged between 9 3/8% and 9 1/2%. But as the new year began, the weekly average rate blipped up to 10.06%, not too surprising given end-of-year pressures; except end-of-year pressures were not the dominant force in that rate movement. The Fed made a large forecast error of reserve need in the reserve maintenance period ended Jan. 4, and, as a consequence, the market was left in a reserve deficit (net borrowed) position on Thursday and Friday (Dec. 29 and 30). Such forecast errors can be important determinants of the Fed funds rate in the short term. Moreover, reserve forecasting will move into the spotlight under contemporaneous reserve accounting (CRA), which will begin in February. Let's look at what this means.

The statement period ended Jan. 4 provides a good example of how reserve forecast errors affect the Fed funds rate. We know something about the error committed from the comments made by the Fed at its weekly press conference. Before the statement week began, the Fed, as it usually does, crafted a series of forecasts for the major reserve factors. For several factors (currency in circulation, Treasury balances at the Fed, and float), the forecast errors all proved to be in the same direction. They amounted to a forecast of reserve need that was about \$1.4 billion less than the needs that ultimately arose. One large error did work in the other direction, leaving the net forecast error at about \$1.2 billion on a weekly average basis. But as the period unfolded, the Fed realized an error existed. It executed RPs to add liquidity. Still, these efforts fell short, and reserves were drained beyond what the Fed had anticipated. This explains why the average net borrowed position for the first six days of the week was \$1.2 billion--and the pressure on the funds rate.

From this experience we can learn something about how CRA will affect the mechanics of the Fed funds market. First, realize that right now, each bank knows its own reserve needs for the week; the Fed knows the market's reserve requirement early in the period; and banks try to guess what the Fed knows to anticipate its open market operations. Under CRA, neither banks nor the Fed will be sure of their respective reserve needs. Banks also will be trying to guess what the Fed itself is guessing! Yet the Fed might not forecast reserve needs accurately. This situation clearly results in a marketplace with a higher degree of uncertainty. The good news is that the expanded two-week reserve maintenance period under CRA should lead to a greater stability in week-to-week reserve requirements. The bad news is that banks' behavior might change, making other elements that absorb reserves more difficult to forecast.

On balance, these factors should not have a great impact on the Fed funds rate. Were the Fed still following a strict nonborrowed reserves path as in 1980-1982, the effect of CRA would be more substantial. But given that the Fed is stabilizing the funds rate, we should expect the Fed to rely on the rate more as an indicator of reserve need and to act to offset undesired pressures. However, the Fed will find that the heightened uncertainty may keep the markets more nervous than normal and that the Fed's ability to fine-tune will probably be impaired.

Robert A. Brusca



	1/13/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.31	9.38	8.38
Repurchase Agreements	9.20	9.38	8.38
U.S. Treasury Issues			
Bills			
3 months	9.11	9.25	7.92
6 months	9.47	9.67	8.08
1 year	9.76	9.96	8.36
Coupons			
2 years	10.58	10.75	9.10
4 years	11.14	11.31	9.60
7 years	11.57	11.71	10.13
10 years	11.64	11.77	10.24
Long Bond	11.71	11.85	10.40
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.30	9.38	8.10
3 months	9.35	9.45	8.15
6 months	9.50	9.68	8.25
1 year	10.00	10.10	8.65
Banker's Acceptances			
1 month	9.25	9.42	8.05
3 months	9.35	9.47	8.10
6 months	9.50	9.69	8.30
Eurodollar Deposits			
1 month	9.69	9.69	8.75
2 months	9.81	9.88	8.75
3 months	9.88	9.94	8.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.34	9.45	8.00
1 month	9.35	9.50	8.17
3 months	9.49	9.55	8.41
Bank Holding Companies			
1 month	9.07	9.19	7.91
Dealer Placed:			
3 months	9.58	9.60	8.32
New AA Corporate Utility Bond	12.75	13.00	12.35
Tax Exempt			
6 month Project Notes	5.35	5.45	4.40
1 year AAA Bond	5.35	5.60	4.50
5 year AAA Bond	7.20	7.15	6.15
20 year AAA Bond	9.10	9.20	8.60

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Jan. 20, 1984

With the books fully closed on 1983, it is useful to look back and assess the Fed's policy moves. By examining the Fed's original policy intentions of last year, the actual course taken, and the results produced, we can better see the hard choices for monetary policy in 1984.

First, the pure postmortem: The Fed hit all of its targets for the year. M1 closed out very near the bottom of the range that was laid out at midyear. M2 similarly languished in the lower quartile of its range. M3 remained at the top of its target. Thus the Fed's policies resulted in targets that could be hit (after some midyear jiggering) and an excellent economic performance: The economy has expanded just as rapidly in this recovery as it usually does in recovery periods. At year-end, we find the super-heated growth of the early recovery period decelerating but the economy showing substantial growth—a very good situation. Inflation remains well in check.

The Fed began the year uncertain about the course of monetary policy. Financial innovation was clearly going to disturb M2. The impact on M1 and M3 was much less certain. M3 seemed likely to be little affected. M1 had been behaving bizarrely even before the new super NOW bank accounts were introduced. The recent behavior of M1 is best characterized by its highly unusual velocity performance. This had led the Fed to accommodate above-target M1 growth in 1982 and to still feel comfortable in allowing the top of 1983's growth target to rise 8% from that bloated 1982 fourth-quarter base. The Fed was highly sensitive to this situation, however, and laid out its 1983 policy directive as targeting M1 to hit the top or bottom of that wide range "depending on velocity." That was the forward looking aspect of Fed policy.

What happened in early 1983 obviated the need for such a conditional directive. M1 grew so fast (velocity grew so slowly) that the Fed threw out its earlier target, resetting a new and higher base allowing M1 to grow at a 5%-9% rate. Fortunately, M1 did slow its growth. The economy continued to grow. These events produced an increase in M1's velocity—which now begins to look as though it's behaving "normally" once again. So the Fed looks to 1984 with a tentative 4%-8% growth range set for M1 and a legacy of M1 misses—even though it did hit all of its final 1983 targets.

The monetary trade-off, however, is even more complex than this suggests. The Fed also sets interim targets to guide its policies from one FOMC meeting to the next. The last group of targets set for Sept.-Dec. growth rates of the Ms found all the aggregates growing more slowly than their targeted rates. On this basis, the Fed should ease. But the possibility of continued strong recovery and (perhaps) normal M1 velocity growth suggests caution. The election year is a complication: It will make it hard for the Fed to raise rates. Money growth will have to be clearly over target for the Fed to tighten—this argues for lowering the M1 target. But if this is done and velocity does not grow could Fed credibility withstand another miss of an M1 target? I think it could. But whatever the Fed decides, it will tread another narrow path trying both to control the aggregates and to sustain recovery.

Robert A. Brusca



Irving Trust

Market Yields

	1/20/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.44	9.31	8.13
Repurchase Agreements	9.30	9.20	8.13
U.S. Treasury Issues			
Bills			
3 months	9.24	9.11	8.16
6 months	9.53	9.47	8.49
1 year	9.89	9.76	8.78
Coupons			
2 years	10.59	10.58	9.36
4 years	11.11	11.14	9.93
7 years	11.53	11.57	10.47
10 years	11.61	11.64	10.51
Long Bond	11.70	11.71	10.74
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.25	9.30	8.10
3 months	9.35	9.35	8.30
6 months	9.50	9.50	8.55
1 year	9.95	10.00	8.85
Banker's Acceptances			
1 month	9.30	9.25	8.05
3 months	9.47	9.35	8.05
6 months	9.64	9.50	8.10
Eurodollar Deposits			
1 month	9.63	9.69	8.88
2 months	9.69	9.81	9.00
3 months	9.81	9.88	9.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.40	9.34	7.11
1 month	9.45	9.35	7.79
3 months	9.49	9.49	8.01
Bank Holding Companies			
1 month	8.94	9.07	7.27
Dealer Placed:			
3 months	9.60	9.58	7.62
New AA Corporate Utility Bond	12.75	12.75	12.65
Tax Exempt			
6 month Project Notes	5.25	5.35	4.60
1 year AAA Bond	5.50	5.35	5.00
5 year AAA Bond	7.00	7.20	6.10
20 year AAA Bond	9.00	9.10	8.60

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629



Irving Trust

Financial Markets

84750-1

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Jan. 27, 1984

Coming soon to a depository institution near you: contemporaneous reserve accounting (CRA)! No, banks are not showing horror films, although the mere thought of CRA is scary to some bankers. But on February 2, 1984, the beginning of the first reserve maintenance period under CRA, we will find out which genre of drama the Fed is presenting: Alfred Hitchcock-type horror films or a remake of William Shakespeare's Much Ado About Nothing. Strange bedfellows though these are, I believe we will have bits of each.

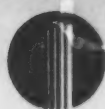
For those of you who perceive Fed policy as being equivalent to the Fed funds rate, much of the ado will go unnoticed. The funds rate may be a bit more volatile, but the Fed has been holding it in a narrow trading range, and that objective will likely continue. However, this hint of greater volatility gets at the core of the problem with CRA: The Fed will find it much harder to fine tune reserve availability. There is a potential for great rate volatility.

This potential is seen most clearly by those of us who closely track reserve movements and the Fed's open market operations. The Fed uses open market operations of various sorts to affect reserves. Under the system currently in place--lagged reserve accounting--the Fed knows the amount of reserves required by banks because the reserve calculation period begins two weeks ahead of the maintenance period. Under CRA, however, the reserve calculation period precedes the reserve maintenance period by just two days--not two weeks. Hard and fast reserve figures aren't available until right at the end of the maintenance period. In addition, the Fed has lengthened the reserve calculation and maintenance periods to two weeks. This means that net free/net borrowed reserve statistics can be calculated only biweekly. There will be only one settlement day (still Wednesday) every two weeks.

The upshot of these changes is that both banks and the Fed will probably have to do a great deal of forecasting to get reserves right. Alternatively, banks that choose not to forecast their required reserves and instead adjust to past reserves data (the two-day head start accorded the reserve calculation period would facilitate this) will encounter some difficulty. For instance, before weekends banks would be holding reserves on Friday based on Thursday's data. That's a problem if the required reserves for each of these two days aren't the same, because reserves held Friday are also held Saturday and Sunday. Thus the weekend is a triple threat. The magnitude of weekend errors would become known only the next week when "scrambling" and rate volatility might occur.

As for the Fed, it really needs to know what procedure banks are using in order to forecast their reserve needs. If the Fed is concerned with stabilizing the Fed funds rate, it will need to know at all points during the statement period what quantity of reserves banks desire to hold. This usually differs from banks' required reserves--at least before settlement day. Banks that forecast are more likely to tolerate reserve imbalances. Banks that "see too much uncertainty" to forecast will likely respond more frantically to perceived reserve imbalances. Thus in addition to estimating required reserves each period, the Fed will need to think about how banks will formulate their own guesses about reserve requirements: Stabilizing the funds rate is not necessarily easy under CRA.

Robert A. Brusca



Irving Trust

Market Yields

	1/27/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00	11.00%	11.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.25
Federal Funds	9.25	9.44	8.25
Repurchase Agreements	9.05	9.30	8.25
U.S. Treasury Issues			
Bills			
3 months	9.24	9.24	8.31
6 months	9.50	9.53	8.55
1 year	9.79	9.89	8.87
Coupons			
2 years	10.61	10.59	9.48
4 years	11.10	11.11	10.02
7 years	11.49	11.53	10.59
10 years	11.59	11.61	10.66
Long Bond	11.69	11.70	10.82
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.25	9.25	8.30
3 months	9.35	9.35	8.50
6 months	9.45	9.50	8.80
1 year	9.90	9.95	9.00
Banker's Acceptances			
1 month	9.25	9.30	8.35
3 months	9.38	9.47	8.50
6 months	9.57	9.64	8.85
Eurodollar Deposits			
1 month	9.69	9.63	9.00
2 months	9.75	9.69	9.13
3 months	9.81	9.81	9.25
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.29	9.40	8.38
1 month	9.40	9.45	8.42
3 months	9.49	9.49	8.54
Bank Holding Companies			
1 month	8.94	8.94	8.17
Dealer Placed:			
3 months	9.52	9.60	8.55
New AA Corporate Utility Bond	12.80	12.75	12.65
Tax Exempt			
6 month Project Notes	5.20	5.25	4.50
1 year AAA Bond	5.40	5.50	5.25
5 year AAA Bond	6.80	7.00	6.30
20 year AAA Bond	8.90	9.00	8.80

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Feb. 3, 1984

Rate spreads in financial markets are like tea leaves waiting to be read. Spreads are affected by a number of special factors. For example, risk perceptions might change and affect the spreads of private paper with respect to U.S. government issues. However, interest rate expectations are the critical determinant of yield differences when comparing debt instruments of the same borrower for different maturities. Thus we can try to isolate certain factors and look for the effects of market expectations on various interest rate spreads.

First of all, recent rate movements have been extremely limited, implying a rather steady configuration of interest rate spreads. In particular, the Fed funds rate has been exceptionally steady at about 9.5%, while three-month domestic certificates of deposit (CDs) have hovered around 9.4%. The relevance of this rate spread is best seen on a cost of funds basis. Banks can short-fund themselves by consistently borrowing Fed funds overnight or by engaging in term funding by issuing CDs--usually in maturities of one, two, three, or six months. And, since both Fed funds and CDs are sold by banks, interest rate expectations are at the core of the difference in these rates. To banks, the cost of CD funds is the cost of the usable funds the CDs generate. With a reserve requirement on CDs of 3%, this means that 3% of the funds raised through CDs are not usable. Thus with interest rates at 10% the cost of CD money is raised to 10.3%; the cost of FDIC insurance adds another 8 basis points, to approximately 10.38%. However, the comparison of the cost of CD money to that of Fed funds also depends on the funds rate expected to prevail throughout the life of the CD. This implies a comparison of the cost of CD funds to a compounded expected cost of Fed funds. (The compounding over three months adds about 10 basis points, to the funds rate.) Thus with CDs trading to yield 9.4% and with Fed funds at 9.5%, the cost difference works out to be about 15 basis points in favor of Fed funds considering all these factors.

Even though CD rates are below the funds rate, Fed funds are a cheaper source of financing for banks--this is due mostly to the reserve requirements on CDs. However, this calculation also depends critically on the future level of the Fed funds rate. I have implicitly assumed that the funds rate will stay at 9.5% over the three-month life of the CD for my calculation. Making this same calculation for previous periods, and adjusting for changes in reserve requirements, reveals that the current spread is low. During periods of steady interest rates, and, therefore steady rate expectations, CDs usually cost 40-50 basis points more than Fed funds, not 15 as now. Banks are willing to pay more for three-month CDs because these instruments provide an opportunity to lock in a rate and reduce interest rate risk. Given these factors, the current 15 basis point cost advantage of Fed funds is low. This suggests the market is using a lower rate for Fed funds in its calculation, implying that the market expects Fed funds to drop somewhat over the next three months.

Although such calculations are crude, they provide a method for inspecting market rates and judging current market thinking. The CD market does not seem to think that Fed funds belong at 9.5%; a level of 9.3% or lower is more consistent with the recent trading ranges for CDs. But remember, this doesn't necessarily make the CD market right.

Robert A. Brusca



Irving Trust

Market Yields

	2/3/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.44	9.25	8.38
Repurchase Agreements	9.40	9.05	8.38
U.S. Treasury Issues			
Bills			
3 months	9.25	9.24	8.50
6 months	9.52	9.50	8.84
1 year	9.75	9.79	9.09
Coupons			
2 years	10.53	10.61	9.80
4 years	11.09	11.10	10.27
7 years	11.51	11.49	10.84
10 years	11.62	11.59	10.99
Long Bond	11.72	11.69	11.10
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.25	9.25	8.45
3 months	9.35	9.35	8.70
6 months	9.45	9.45	9.00
1 year	9.85	9.90	9.40
Banker's Acceptances			
1 month	9.25	9.25	8.50
3 months	9.35	9.38	8.70
6 months	9.55	9.57	9.00
Eurodollar Deposits			
1 month	9.63	9.69	9.00
2 months-	9.69	9.75	9.19
3 months	9.75	9.81	9.31
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.45	9.29	8.63
1 month	9.45	9.40	8.68
3 months	9.44	9.49	8.68
Bank Holding Companies			
1 month	8.94	8.94	8.17
Dealer Placed:			
3 months	9.60	9.52	8.73
New AA Corporate Utility Bond	12.80	12.80	12.60
Tax Exempt			
6 month Project Notes	5.00	5.20	4.50
1 year AAA Bond	5.40	5.40	5.00
5 year AAA Bond	6.85	6.80	6.25
20 year AAA Bond	8.95	8.90	8.80

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Financial Markets^{2/15/84}

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Feb. 10, 1984

On February 7, Chairman Volcker testified before the House Banking Committee as he is directed to do by the "Humphrey-Hawkins" Act. The previous day, the Fed had released the targets for money and credit for 1984. The chairman's testimony centered on the justification for the targets and the Fed's outlook for the economy in 1984 under these targets. Committee members pressed the chairman for his views on the budget deficit: How big a problem is it? What can be done? In answering these questions, Mr. Volcker drew connections between the federal budget deficit and the burgeoning current account deficit. His response has put the inflation fight and prospects for the dollar's foreign exchange value in the limelight.

The chairman took a tough stance, directly confronting the election year pressure: "Markets have a mind of their own; they have never waited on the convenience of kings or Congressmen--or elections." Having said this, Mr. Volcker described why Fed policy would be essentially helpless in bringing interest rates down this year unless the pace of economic activity slows. The Fed's desire to fight inflation means that market forces themselves will have to work to produce lower rates if rates are to decline. To use monetary policy to force rates down would be self-defeating in terms of inflation.

According to Mr. Volcker, budget deficits are the central problem. They increase our domestic savings requirements and have led to high interest rates. Our failure to save enough to self-finance the deficits--and to supply sufficient funds to the private sector--means that we must consume less and save more or produce more. The strong dollar is responsible for this poor consumption-production mix and has led to a huge deficit in our current account. To balance our international payments, capital has poured into the U.S.; in 1984, Mr. Volcker estimates, about \$80 billion will be needed, about 2% of GNP. In the short run, this is fine, but it's not sustainable over the long haul. For now, the strong domestic demand (a 7% real growth rate in the fourth quarter of last year) helps to stimulate foreign economies. But if we continue to run large external deficits, the time will come when the U.S. will become a net borrower instead of a net lender. Chronic dependence on foreign capital would make our currency vulnerable. A sharp decline in the dollar would not stimulate domestic production as much as it would inflation, so that's not the answer.

This is why monetary policy cannot be used to force the dollar lower. The dollar might decline but cannot drop sharply because that would precipitate inflation. Should the dollar weaken too much, the Fed would react with a tighter policy to blunt the inflationary effects of dollar depreciation. A tighter monetary policy would also help arrest the dollar's decline. So I conclude that, in some sense, the dollar can't drop sharply this year. With this logic Mr. Volcker has not sounded an immediate warning. For now, the expansionary policies are not necessarily bad for the U.S. or the world--they may in fact be good. He cautions about the future, however. The budget deficits are the key to this rather complicated interrelated system, which draws in the external payments imbalance and focuses on the dollar. If deficits can be reduced, this menace is alleviated. But in this scheme of things, the U.S. current account also is a key, and the federal deficit doesn't totally determine this account. Policies abroad will be important in 1984--more foreign growth would help.

Robert A. Brusca



Irving Trust

Market Yields

	2/10/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.44	9.44	8.50
Repurchase Agreements	9.30	9.40	8.38
U.S. Treasury Issues			
Bills			
3 months	9.37	9.25	8.39
6 months	9.67	9.52	8.66
1 year	9.87	9.75	8.93
Coupons			
2 years	10.69	10.53	9.64
4 years	11.25	11.09	10.10
7 years	11.67	11.51	10.61
10 years	11.77	11.62	10.78
Long Bond	11.90	11.72	10.87
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.45	9.25	8.30
3 months	9.50	9.35	8.50
6 months	9.70	9.45	8.70
1 year	9.95	9.85	9.20
Banker's Acceptances			
1 month	9.55	9.25	8.30
3 months	9.70	9.35	8.45
6 months	9.65	9.55	8.70
Eurodollar Deposits			
1 month	9.75	9.63	8.78
2 months	9.88	9.69	9.00
3 months	9.94	9.75	9.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.45	9.45	8.51
1 month	9.55	9.45	8.56
3 months	9.60	9.44	8.68
Bank Holding Companies			
1 month	8.94	8.94	8.17
Dealer Placed:			
3 months	9.71	9.60	8.79
New AA Corporate Utility Bond	13.10	12.80	12.40
Tax Exempt			
6 month Project Notes	5.15	5.00	4.45
1 year AAA Bond	5.25	5.40	5.00
5 year AAA Bond	6.75	6.85	6.25
20 year AAA Bond	9.00	8.95	8.90

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Financial Markets ^{2/24/84}

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

B4750-1

Friday
(Noon)

Feb. 17, 1984

The past week has brought a flurry of economic data that has upset the financial markets. The stock market has fallen rather sharply; the dollar has weakened, principally against the German mark; bond prices have remained severely depressed; and short-term money market rates have been gradually and steadily rising. What common themes exist in the recent releases that would explain such widespread anxiety?

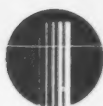
First, if not foremost, has been the effect of Mr. Volcker's testimony before the Senate and House Banking Committees, coupled with his release of revised monetary statistics for 1983 and 1984. Mr. Volcker's testimony dwelt upon the risks facing policy decisions: the budget deficit; the current account deficit; and the potential for inflation to be reignited. Rather than being reassured about Mr. Volcker's resolve to deal with the situation, the markets picked up the theme of problems. The interest sensitive markets were substantially upset by the revision of the monetary data for 1983.

Prior to revision, the growth in M1 had been quite weak; M2 had been below the midpoint of its range; and M3 had just fallen within its target. With the revision, M1's growth was increased overall, with much of it coming at the end of the year. M3 was revised to include Eurodollars: Now the Fed has missed its M3 target in 1983. M2 was not as substantially affected. These revisions took a certain safety net away from the market. The state of the economy was still unclear. But with M1 and M2 growth no longer looking weak, the Fed was not restrained from bringing interest rates higher--suddenly the markets felt a new sense of risk.

The economic news has not brought any solace to the interest sensitive sectors. Part of the strong performance in January is the result of weather problems that had artificially depressed December's data. But even taking the two months together, the economy looks strong, perhaps too strong for this point in the recovery. The strength is not exactly where we would like to see it. There was a gigantic increase--\$6.6 billion--in consumer debt in December. Retail sales in January soared from depressed December levels, up 2.2%, while industrial production increased 1.1%. Consumers were taking goods off the shelves at a faster rate than they could be produced. Despite high interest rates, housing starts surged 15% to an annual rate of 1.92 million starts; permits were up sharply too.

The rise in consumer credit underscores current concerns about credit growth and portends a continued dependence on imports, as many consumer goods are made abroad. While production is strong, it is not keeping up with demand. Inventory/sales ratios are low, tending to reinforce future production increases, possibly pressuring capacity further--and again focusing attention on imports to fill the gap. The decline in the dollar may help to solve this problem but certainly not soon. If the dollar's slide broadens, it raises the specter of inflation and still higher interest rates. For now, U.S. interest rates still seem high. Although they haven't slowed the growth of money or consumer expenditures, there must be some concern. The cost of capital is high; the foreign economic recoveries are young and fragile. While many factors point to the potential for higher rates, there is some rationale for temperance.

Robert A. Brusca



Irving Trust

Market Yields

	2/17/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.50	9.44	8.38
Repurchase Agreements	9.35	9.30	8.38
U.S. Treasury Issues			
Bills			
3 months	9.46	9.37	8.20
6 months	9.86	9.67	8.55
1 year	10.17	9.87	8.80
Coupons			
2 years	10.84	10.69	9.55
4 years	11.36	11.25	9.95
7 years	11.75	11.67	10.30
10 years	11.87	11.77	10.50
Long Bond	11.98	11.90	10.90
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.52	9.45	8.35
3 months	9.75	9.50	8.45
6 months	9.85	9.70	8.65
1 year	10.35	9.95	9.15
Banker's Acceptances			
1 month	9.55	9.55	8.35
3 months	9.70	9.70	8.40
6 months	9.94	9.65	8.60
Eurodollar Deposits			
1 month	9.88	9.75	8.88
2 months	10.00	9.88	9.00
3 months	10.13	9.94	9.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.55	9.45	8.38
1 month	9.61	9.55	8.42
3 months	9.60	9.60	8.54
Bank Holding Companies			
1 month	8.94	8.94	7.40
Dealer Placed:			
3 months	9.76	9.71	8.28
New AA Corporate Utility Bond	13.05	13.10	12.20
Tax Exempt			
6 month Project Notes	5.15	5.15	4.20
1 year AAA Bond	5.50	5.25	4.80
5 year AAA Bond	7.00	6.75	6.30
20 year AAA Bond	9.00	9.00	8.90

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Feb. 24, 1984

The marketplace experienced a series of setbacks in February leading to utter frustration. Since early February, three-month CDs have increased their yields by 45 basis points; the long bond is back nearly 50 basis points; and Fed funds have risen by a meager 12 basis points. Thus the Fed cannot be said to be at the bottom of this. The money markets have moved in advance of the Fed, indicating a change of expectations.

There have been a few fundamental changes. Certainly the revision of the money stock data for 1983 counts as a fundamental. The monetary picture is different now, with M1 growth stronger overall, particularly in the second half of the year. The economy is the second changed fundamental, more important than money. But the economic data have been greatly affected by weather problems: They looked too weak in December and too strong in January. Slow growth in money had provided a safety net; presumably the Fed could not tighten with weakness in the aggregates. Now the safety net has been removed. But when this is combined with the "stronger" economy, it does not suffice to explain why the market has moved so much.

The answer is really in the development of market psychology. Mr. Volcker's testimony was catalytic. It painted a picture of risks, and now market participants fear that all the worst will happen at once: Interest rates will rise, inflation will kick up, the dollar will decline, the budget deficits will remain large, and so will our deficit on current account. While some combination of these "bad" events could occur, all cannot happen simultaneously. But because there is no clear solution, participants are fearing the worst. This is in some way irrational. The policy trade-offs are difficult, but they do exist. We need to identify the priorities (those likely to be acted on) and see what repercussions are likely.

In this regard, I feel that the long-run inflation outlook is much better than the bond market thinks. Twelve percent-plus for 30 years is going to make a handsome return relative to inflation. Gridlock on the budget deficit is a problem. And it's easy to see how skeptical market participants might see inflation as one possible solution the government could pursue to settle its debts. But the scheduled indexing of tax brackets makes this course one of lesser payoff. Moreover, Mr. Volcker's testimony dwelt on the inflation problem and the need to keep the pressure on. Too much effort has already been expended fighting inflation for it to be for naught. Inflation will be kept in check. At the same time, the Fed will try and keep interest rates from moving to excessive heights. This should provide some reassurance. Thus there is risk of higher interest rates, but not significant increases until budget deficits clash with an economy facing capacity constraints that could begin to stimulate inflation. We need not harbor such fears now. The economy has a number of unsolved problems, but that's not cause enough to fear that everything will go wrong. We should have more trust in monetary policy and hope for a changed fiscal policy. In the meantime, let's not overdo the fear of deficits at this stage in the expansion.

Robert A. Brusca



Irving Trust

Market Yields

	2/24/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00	11.00%	11.00%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.63	9.50	8.13
Repurchase Agreements	9.35	9.35	8.05
U.S. Treasury Issues			
Bills			
3 months	9.53	9.46	8.13
6 months	9.89	9.86	8.29
1 year	10.19	10.17	8.58
Coupons			
2 years	10.98	10.84	9.28
4 years	11.48	11.36	9.72
7 years	11.88	11.75	10.19
10 years	11.99	11.87	10.25
Long Bond	12.12	11.98	10.47
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.55	9.52	8.15
3 months	9.65	9.75	8.25
6 months	9.90	9.85	8.35
1 year	10.25	10.35	8.90
Banker's Acceptances			
1 month	9.60	9.55	8.10
3 months	9.75	9.70	8.20
6 months	9.97	9.94	8.35
Eurodollar Deposits			
1 month	9.94	9.88	8.88
2 months	10.13	10.00	8.94
3 months	10.25	10.13	8.94
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.50	9.55	8.12
1 month	9.66	9.61	8.17
3 months	9.65	9.60	8.28
Bank Holding Companies			
1 month	9.07	8.94	8.31
Dealer Placed:			
3 months	9.77	9.76	8.41
New AA Corporate Utility Bond	13.15	13.05	11.85
Tax Exempt			
6 month Project Notes	5.25	5.15	4.00
1 year AAA Bond	5.70	5.50	4.50
5 year AAA Bond	6.90	7.00	6.20
20 year AAA Bond	9.10	9.00	8.65

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Financial Markets ^{3/1/84}

84750-1

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Mar. 2, 1984

Since year-end 1982, Fed easings and tightenings have been microscopic events for all but the most involved financial market participants. Nonetheless, during that time, the Fed has tightened and eased and has retracted its easing. It has used periods of rate uncertainty, particularly quarter-end, to change its policy. The Fed now seems to have begun to tighten again, using as cover the uncertainty and technical pressure of CRA.

In 1983, the Fed used quarter-end as a time to change the level of interest rates. Because Fed funds swing widely at quarter-end (for example, swings of 100 basis points occurred in adjacent weeks at the end of QIII and of QIV in 1983), market participants become more uncertain. Thus changes in Fed policy at these times are hard to detect. The funds rate dropped sharply in early 1983 to 8.5% from nearly 9.0% at year-end 1982. The level of rates moved abruptly to a lower trading range in the new year. After a turbulent end of the first quarter, rates hovered at the slightly higher level of 8.7%. Then, end-of-quarter turbulence emerged in June, and Fed funds suddenly were averaging 9.5% (or higher), where they remained for most of the third quarter. Rates gyrated again at end-September and--in a move the Fed called an easing--averaged 9.38% for most of the fourth quarter. The end of 1983 brought sharp rate movements and left the level of rates at 9.5% moving up to average 9.57% under the recent CRA period. What do these movements tell us?

First, the Fed does not necessarily tighten at quarter-end. But because of the rate disturbances that occur at these times, the Fed's pressure can't always be separated from technical influences. Thus the Fed gains some scope to test the waters of market reaction slowly as the higher level of rates comes to be understood as a policy change. CRA is one of these technical opportunities where rates were expected to be under upward pressure for "technical" reasons. The Fed has the opportunity here of just not letting the "technical" effect dissipate.

Of all the Fed's recent moves, this tightening might be the most subtle: It comes under the cover of CRA. Moreover, this tightening hasn't taken too much overt Fed effort--just one great big revision in the monetary data and "presto change" the market scattered. In early January, the market was willing to discount high Fed funds because the Fed was confessing to forecast errors in its reserve projections. These errors seemed to imply the less liquid funds market condition wasn't a matter of intentional (overt) policy. That's not the case anymore. But the most convincing case for tightening looks at what the Fed has agreed to do: It had said in December it would tighten under the right conditions. If the now-revised monetary data of 1983 had been in the FOMC's hands in December, it probably would have tightened then. Thus the FOMC is, in some sense, behind schedule. Moreover, two of the last three Fed policy moves occurred in a telephone conference, so why not this one? The good news is that past FOMC actions seem to imply that the Fed is still concerned about moving rates too high; as far as we know, the top of the Fed funds band is still at 10%.

Robert A. Brusca



Irving Trust

Market Yields

	3/2/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00	11.00%	10.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	9.50	8.50
Federal Funds	9.75	9.63	8.38
Repurchase Agreements	9.40	9.35	8.38
U.S. Treasury Issues			
Bills			
3 months	9.49	9.53	8.21
6 months	9.89	9.89	8.39
1 year	10.16	10.19	8.59
Coupons			
2 years	10.95	10.98	9.28
4 years	11.47	11.48	9.64
7 years	11.90	11.88	10.13
10 years	11.98	11.99	10.26
Long Bond	12.08	12.12	10.44
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.60	9.55	8.25
3 months	9.70	9.65	8.25
6 months	9.95	9.90	8.35
1 year	10.60	10.25	8.60
Banker's Acceptances			
1 month	9.66	9.60	8.25
3 months	9.89	9.75	8.25
6 months	10.13	9.97	8.35
Eurodollar Deposits			
1 month	9.94	9.94	8.75
2 months	10.06	10.13	8.75
3 months	10.19	10.25	8.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.50	9.50	8.51
1 month	9.61	9.66	8.42
3 months	9.76	9.65	8.13
Bank Holding Companies			
1 month	9.07	9.07	8.04
Dealer Placed:			
3 months	9.80	9.77	8.41
New AA Corporate Utility Bond	13.00	13.15	11.75
Tax Exempt			
6 month Project Notes	5.25	5.25	4.30
1 year AAA Bond	5.50	5.70	4.50
5 year AAA Bond	7.00	6.90	6.00
20 year AAA Bond	9.30	9.10	8.25

This information represents prevailing market yields.
It should not be construed as an offering.
 All yields are on the offered side of the market.

Cable Address:
 "IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
 W.U.I. 62832 • French 82629



Irving Trust

3113124 B4750-1
Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Mar. 9, 1984

We are currently going through one of those interesting periods when both the stock market and the bond market are giving off the same signals. Despite another flurry of merger and acquisition activity (an indication that stocks are too cheap), the stock market can't seem to avert its decline, let alone move higher. Bond prices have (generally) gone back below their worst levels of last year; the long bond's yield of 12.35% seems quite large unless long-run inflationary expectations are two to three times what they are for the near term. So why are these markets so pessimistic? Is the stock market forecasting a recession?

I believe that interpretation of the stock market is misguided. The stock market and the bond market both function more as discounting mechanisms than as forecasting machines. In August of 1982, the stock market began a new set of calculations. As the market soared, analysts saw a brighter future and seemed to be willing to project strong performance fairly far down the road. Now, however, the future of 1982 is at hand: 1984 and 1985 can be analyzed more clearly, and they don't look so good anymore. Yet the present picture is quite positive: The economy is strong; the unemployment rate has fallen faster than the most optimistic would have hoped; and the inflation rate is low. The bad news lies in the future, and this is where the discounting function of markets becomes important.

The prospect of high interest rates is not good for either the stock or the bond market. High real interest rates imply that the return to capital must be even greater to make investment lucrative. Some have tried to explain the persistence of high real rates the other way around, arguing that the change in the tax laws has actually increased the return to capital and enabled business to borrow at even higher interest rates. Thus the tax breaks are blamed for the high rates. I don't agree with this view. High rates are a function of tight monetary policy (which raises the current level of rates) and of fear of the future (which steepens the yield curve). The markets are putting a sizable discount factor on the future.

Market participants know that we are living on borrowed time in the form of too much money borrowed by the government and too much capital imported from abroad. We don't see the effects of this policy now, but that doesn't mean that sinister things aren't afoot. Yet policy rarely reacts to the unseen menace, as history shows. The markets have learned from their experience of low rates of return in the 1970s, particularly on bonds. Thus market skepticism breeds frustration and anxiety, which lower the prices of financial assets and add to the perceptions of policymakers that a problem exists. And so it is that the invisible hand makes the unseen menace apparent to all. I see this as a proper working of economics and of markets. Yet I don't know that these markets are correct. Their discounting is not very formal in a mathematical sense. Participants see the risk of inflation if budget deficits are large and monetary policy is lax. But if deficits are large and monetary policy is tight, high interest rates may cause a recession, and inflation would not be a problem. In the face of this uncertainty, the markets are discounting. It's very hard to say that they are wrong, even though we can't be sure that the markets know what is going to happen.

Robert A. Brusca



Irving Trust

Market Yields

	3/9/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	10.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.75	9.75	8.25
Repurchase Agreements	9.55	9.40	8.38
U.S. Treasury Issues			
Bills			
3 months	9.71	9.49	8.54
6 months	10.13	9.89	8.72
1 year	10.41	10.16	8.96
Coupons			
2 years	11.20	10.95	9.63
4 years	11.76	11.47	9.95
7 years	12.18	11.90	10.40
10 years	12.30	11.98	10.52
Long Bond	12.40	12.08	10.66
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.80	9.60	8.55
3 months	10.00	9.70	8.65
6 months	10.25	9.95	8.70
1 year	10.75	10.60	9.15
Banker's Acceptances			
1 month	9.88	9.66	8.55
3 months	10.10	9.89	8.65
6 months	10.43	10.13	8.75
Eurodollar Deposits			
1 month	10.19	9.94	9.13
2 months	10.31	10.06	9.25
3 months	10.44	10.19	9.31
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.85	9.50	8.51
1 month	9.86	9.61	8.68
3 months	9.87	9.76	8.68
Bank Holding Companies			
1 month	9.19	9.07	8.30
Dealer Placed:			
3 months	10.13	9.80	8.66
New AA Corporate Utility Bond	13.55	13.00	11.90
Tax Exempt			
6 month Project Notes	5.35	5.25	4.40
1 year AAA Bond	5.70	5.50	4.75
5 year AAA Bond	7.00	7.00	6.00
20 year AAA Bond	9.40	9.30	8.50

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Mar. 16, 1984

Over the past month or so interest rates have been trending upward. Now we have gotten to the point where more and more analysts are publicly saying that the Fed has tightened. Speculation has intensified that the prime rate might rise. The question of the week therefore is will the prime rate rise.

By most formulas, the cost of funds to banks would indicate that the prime rate should rise. The easiest benchmark calculation compares the prime rate of 11% to the CD rate grossed-up for reserve requirements plus the cost of FDIC insurance. Three-month CD money at 10% costs 10.3% after paying for reserve requirements and 10.38% after FDIC insurance, leaving a spread of about 60 basis points between the cost of three-month money and prime. This spread is small by recent standards. Thus it's appropriate to speak of there being upward pressure on the prime rate. But upward pressure isn't the same as a rate increase, and I would still be reluctant to forecast a prime rate increase as likely in the near future.

First of all, the recent upward move in Fed funds may be an artificial or technical phenomenon. Wednesday was a settlement date for the two-week reserve maintenance period. Pressure on Thursday was due to a tax date. Over a longer time frame, Fed funds have been trending up, but we can't say for sure that they are trading at 10% now. So the market is still struggling to pin down the level of the underlying funds rate. This is made more difficult by upward pressure imparted by usual quarter-end forces and other special factors.

It's hard to forecast that the Fed will purposefully let the funds rate trade consistently above 10%. The FOMC's band of 6% to 10% has been in place for over a year. So, should it be changed, the Fed would have to admit that it had tightened. Before the Fed could agree to do this and to take the heat, it would want to be sure that the economy is really overheating. The economy is growing fast--it's not yet overheating.

This brings us back to the prime rate. If Fed funds are only temporarily firm, will the prime go up? The answer is no. Banks will have to become convinced that the high level of rates will endure before they lift the prime. The banks' expected future funding costs may be lower than current rates suggest, so the lending spread calculated above may be less than the banks think it will actually turn out to be. But this argument lives in the realm of the forecasted and expected. Such an existence is always in great peril. The correctness rests on what the Fed actually does. It's pretty clear that the Fed has tightened somewhat in recent weeks. The next important issue is how far will it go? That is what's critical for the prime rate.

Robert A. Brusca



Irving Trust

Market Yields

	3/16/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	10.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.25	9.75	8.63
Repurchase Agreements	9.65	9.55	8.63
U.S. Treasury Issues			
Bills			
3 months	9.79	9.71	8.70
6 months	10.17	10.13	8.94
1 year	10.54	10.41	9.18
Coupons			
2 years	11.18	11.20	9.75
4 years	11.72	11.76	10.03
7 years	12.13	12.18	10.44
10 years	12.23	12.30	10.56
Long Bond	12.32	12.40	10.68
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.85	9.80	8.70
3 months	10.05	10.00	8.80
6 months	10.35	10.25	9.00
1 year	10.85	10.75	9.20
Banker's Acceptances			
1 month	9.83	9.88	8.70
3 months	10.07	10.10	8.80
6 months	10.48	10.43	9.05
Eurodollar Deposits			
1 month	10.19	10.19	9.19
2 months	10.31	10.31	9.25
3 months	10.44	10.44	9.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.90	9.85	8.51
1 month	10.02	9.86	8.82
3 months	9.97	9.87	8.81
Bank Holding Companies			
1 month	9.33	9.19	8.30
Dealer Placed:			
3 months	10.24	10.13	8.80
New AA Corporate Utility Bond	13.40	13.55	11.95
Tax Exempt			
6 month Project Notes	5.60	5.35	4.60
1 year AAA Bond	5.60	5.70	5.10
5 year AAA Bond	7.00	7.00	6.00
20 year AAA Bond	9.40	9.40	8.50

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Financial Markets

4/6/84

84750-1

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Mar. 23, 1984

Last week in this letter you read that the prime rate would not be raised soon. That forecast was obviously wrong, but subsequent events have shown that at least some market participants endorsed its logic. As noted last week, prime formulas would have called for the prime to rise (and from that perspective the rate increase was a nonevent). Yet the reluctance of banks to ride a narrow cost-of-funds spread to prime sent ominous impulses through the markets concerning the short-term outlook for interest rates. This was indeed one of those rare times when a prime rate increase had an implication for the rest of the money markets.

That implication did not follow as much from a new reading of the banks' implicit outlook for interest rates as it did from the new environment faced by the Fed. The prime rate increase fueled the notion that rates were going up and desensitized the 10% level for Fed funds. This cleared the way for the Fed to let funds trade above 10% and hold to the position that Fed funds were only following market rates. Until the prime rate increase, the Fed was wedged into a corner: It faced election year pressure; the economy was growing quite rapidly; and the Fed funds cap at 10% had been in place for over one year. The Administration had taken the position that the Fed was not tightening, but that the market was. Thus the Fed had to take careful notice of the 10% level for Fed funds; breaching that level would have been a clear signal of a tightening.

Immediately after the prime rate went up, Fed funds rates firmed. The effective Fed funds rates were 10.07%, 10.25%, and 10.36% Monday through Wednesday after the prime rate rose. In response, money market rates rose too; three-month CDs rose about 30 basis points, and six-month instruments rose about 20 basis points over the course of the week. Breaking the 10% level on Fed funds did it, but the prime rate was the key.

Of course other things changed too. The flash forecast showed real GNP growing at a 7.2% rate this quarter, but the strength of the economy has been an ongoing theme in the markets. The event that has been questioned all along has been the Fed's willingness or ability to raise rates. Astounding as it may seem, some analysts have continued to hold that the Fed hasn't tightened, but that it still might. It's true that complicating special factors are affecting the Fed funds rate. Fiscal year-end transactions by Japanese banks, which are prominent players in the dollar markets, affect interest rate movements. The end of the Japanese fiscal year coincides with the end of the first quarter, increasing usual quarter-end pressures in U.S. markets. Also the Fed still seems to be getting adjusted to contemporaneous reserve accounting. Notwithstanding all these factors, the Fed funds rate is higher and the Fed is choosing to not offset the high funds rate. I continue to see the higher funds rate as a policy move. The rise in the prime rate helped to make further increases in Fed funds less of a political problem for the Fed. But we still do not have a clear idea of how high the Fed wants funds.

Robert A. Brusca



Irving Trust

Market Yields

	3/23/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.50%	11.00%	10.50%
Effective since	3/19/84		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	10.31	9.25	8.63
Repurchase Agreements	10.00	9.65	8.63
U.S. Treasury Issues			
Bills			
3 months	10.10	9.79	8.82
6 months	10.55	10.17	9.09
1 year	10.87	10.54	9.23
Coupons			
2 years	11.55	11.18	9.85
4 years	11.97	11.72	10.20
7 years	12.35	12.13	10.52
10 years	12.43	12.23	10.57
Long Bond	12.50	12.32	10.61
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.25	9.85	8.85
3 months	10.40	10.05	9.00
6 months	10.65	10.35	9.15
1 year	11.20	10.85	9.45
Banker's Acceptances			
1 month	10.28	9.83	8.85
3 months	10.45	10.07	9.00
6 months	10.75	10.48	9.20
Eurodollar Deposits			
1 month	10.68	10.19	9.38
2 months	10.75	10.31	9.44
3 months	10.81	10.44	9.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.21	9.90	8.76
1 month	10.38	10.02	8.94
3 months	10.40	9.97	9.07
Bank Holding Companies			
1 month	9.84	9.33	8.56
Dealer Placed:			
3 months	10.61	10.24	8.98
New AA Corporate Utility Bond	13.60	13.40	12.10
Tax Exempt			
6 month Project Notes	5.95	5.60	4.70
1 year AAA Bond	5.75	5.60	4.85
5 year AAA Bond	7.15	7.00	6.40
20 year AAA Bond	9.55	9.40	8.75

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Mar. 30, 1984

The recent reserve maintenance period (RMP) has been the most turbulent one since contemporaneous reserve accounting began; it was accompanied by great uncertainty concerning what the Fed intends for interest rates. Over the last RMP, the Fed operated on 7 of the 10 business days. In addition to four customer RPs, the Fed executed a four-day System RP to add reserves. On two occasions during the final days of the RMP, the Fed drained reserves with matched sales. Obviously there was some confusion as to reserve conditions in the market. Let's look closely at what the Fed was doing to better understand what it was attempting to do.

The clearest signal that emerges from the period's operations is that the Fed has been very rate sensitive. Visible open market operations have not been used in an offensive fashion but rather in a defensive fashion. The Fed did System RPs, adding reserves, with the funds rate at 10.5%--the effective rate for the day (March 22) registered 10.45%. On Tuesday and Wednesday (March 27 and 28), the Fed drained reserves, with matched sales, as the effective funds rate dipped to 9.62% and 8.81% respectively. Thus the timing of open market operations does not provide strong evidence that these operations were used to drive the Fed funds rate up--even though rates were high during the maintenance period, averaging above 10%.

In the Fed's own commentary after the period ended, it acknowledged that reserve forecast errors were made. These errors resulted in reserves being drained from the banking market beyond what was intended. This, in combination with the notion that open market operations did not drive rates up, provides an argument that the tightening we have seen, in terms of the high Fed funds rate, has occurred through events beyond the control of the Fed. It supports the argument that the Fed hasn't tried to tighten as much as it seems.

While this conclusion is supportable by the facts, this highly technical argument is off base. Concluding that the Fed did not act aggressively is not the same as concluding that the Fed has not tightened. Indeed, the Fed has tightened considerably. Market pressures intensified when the prime rate was raised. The Fed did not try and offset these pressures. On 7 of 10 business days, the effective rate for Fed funds was allowed to trade above the very important 10% level. Market pressures were so intense that the Fed did not have to be aggressive to get rates up. The System RP executed on March 22 to stem the rise in interest rates was so large that matched sales were executed later to drain the reserves back out. Granted there were problems during this period, with float draining reserves then adding them back. The Fed has given some detail on those problems, apparently in an attempt to clarify the odd operations. But, all in all, we get from this a picture of the Fed trying to keep Fed funds below 10 1/2% and above 9 5/8%. While factors other than Fed operations do affect rates, the Fed has been so careful with the funds rate that we must place emphasis on where Fed funds trade--and for how long. These factors are much more important than how the Fed gets them to trade there.

Robert A. Brusca



Irving Trust

Market Yields

	3/30/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.50%	11.50%	10.50%
Effective since	3/19/84		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	10.38	10.31	8.88
Repurchase Agreements	10.13	10.00	8.75
U.S. Treasury Issues			
Bills			
3 months	10.05	10.10	8.67
6 months	10.47	10.55	8.67
1 year	10.77	10.87	8.61
Coupons			
2 years	11.55	11.55	9.63
4 years	12.08	11.97	10.25
7 years	12.45	12.35	10.50
10 years	12.49	12.43	10.88
Long Bond	12.51	12.50	10.38
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.25	10.25	9.00
3 months	10.40	10.40	9.10
6 months	10.62	10.65	9.15
1 year	11.25	11.20	9.50
Banker's Acceptances			
1 month	10.33	10.28	9.00
3 months	10.54	10.45	9.05
6 months	10.89	10.75	9.20
Eurodollar Deposits			
1 month	10.50	10.68	8.75
2 months	10.62	10.75	8.75
3 months	10.81	10.81	9.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.16	10.21	9.14
1 month	10.22	10.38	9.19
3 months	10.40	10.40	9.20
Bank Holding Companies			
1 month	9.45	9.84	8.68
Dealer Placed:			
3 months	10.45	10.61	8.81
New AA Corporate Utility Bond	13.75	13.60	12.15
Tax Exempt			
6 month Project Notes	5.90	5.95	5.00
1 year AAA Bond	5.75	5.75	5.25
5 year AAA Bond	7.40	7.15	6.50
20 year AAA Bond	9.70	9.55	8.75

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

64758-1 4/11/84
Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Apr. 6, 1984

Prime rates rose again this week amid rampant uncertainty about what the Fed is doing. The FOMC met on March 27; we have since learned that, just prior to that meeting, a telephone conference resulted in a temporary lifting of the 10% ceiling on Fed funds. At the FOMC meeting itself, the range for Fed funds was probably moved up by one percentage point to 7%-11%. But the question remains: Where would the Fed like Fed funds to trade?

The market has become very jittery because Fed funds have been trading well over 10%--frequently over 10½%--in this new reserve maintenance period. The effective funds rate of 10.41% for the just-completed week is high by recent standards. The market has been continually disappointed by the Fed's failure to execute large System RPs to bring Fed funds down. Thus a consensus is building that Fed funds on average are going to trade above 10½%. While it's hard to split hairs over where Fed funds are supposed to be, let's look at how the Fed is operating. Can we read anything into the Fed's failure to do large RPs this past week?

In my last letter, I argued that we must look more at what rates the Fed allows the market to experience than at how the Fed achieves that result. But at the same time, we must realize that the Fed's operations do have some meaning--especially after the Fed has made a mistake. Last week was a sloppy reserve period for the Fed: It added; it drained; Fed funds firmed, then fell--sharply. The Fed clearly (to me anyway) executed its System RPs to "protect" the 10½% level of Fed funds on Thursday, March 22. But this proved to be a mistake, as Fed funds later fell sharply, prompting the Fed to mop up reserves with two rounds of matched sales. Thus the Fed learned a lesson: It's hard to judge reserve needs from Fed funds movements under CRA. The market can have such a strong demand for excess reserves (or simply lousy reserve forecasts) that even a very liquid market can push rates up. But as the end of the CRA period draws near, reserve forecasts can sharpen up. Banks may try to unload their hoard of excess reserves. Thus the funds rate can trade off--sharply.

Also bear in mind that this is the first time the Fed has allowed rates to move up substantially under CRA. It is reasonable to assume that the Fed too is learning. Last week's lesson was: Be careful about being too aggressive in defending rate levels. That leads to this week's operations, which find the Fed under-adding with a bill pass for the period, then doing small customer RPs to take the steam off the ensuing rise in rates. This adding is not aggressive, and it does not reassure the market. Yet the Fed does not want to be adding and then draining reserves in the same week.

The Fed's March 22 RP sent the message that the Fed is concerned that rates might get too high. This week's operations say: The honeymoon is over; we really can't spoon-feed the market its steady diet of stable Fed funds rates. So judgment is returning to Fed watching. I don't think that this means that the Fed has again become more reserves oriented. I just think that the Fed is conceding that the Fed funds rate has less information content as to reserve supply/demand conditions than it thought before. This implies that the funds rate may tend to trade with less stability in the future.

Robert A. Brusca



Irving Trust

Market Yields

	4/6/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.00%	11.50%	10.50%
Effective since	4/5/84		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	10.38	10.38	8.75
Repurchase Agreements	10.38	10.13	8.75
U.S. Treasury Issues			
Bills			
3 months	10.07	10.05	8.61
6 months	10.49	10.47	8.90
1 year	10.78	10.77	9.06
Coupons			
2 years	11.55	11.55	9.68
4 years	12.11	12.08	10.03
7 years	12.45	12.45	10.40
10 years	12.53	12.49	10.50
Long Bond	12.57	12.51	10.55
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.30	10.25	8.80
3 months	10.35	10.40	8.80
6 months	10.60	10.62	8.95
1 year	11.25	11.25	9.30
Banker's Acceptances			
1 month	10.42	10.33	8.85
3 months	10.61	10.54	8.85
6 months	10.86	10.89	8.90
Eurodollar Deposits			
1 month	10.81	10.50	9.44
2 months	10.88	10.62	9.50
3 months	10.93	10.81	9.56
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.41	10.16	8.63
1 month	10.48	10.22	8.81
3 months	10.40	10.40	8.81
Bank Holding Companies			
1 month	9.71	9.45	8.81
Dealer Placed:			
3 months	10.65	10.45	8.97
New AA Corporate Utility Bond	13.70	13.75	11.85
Tax Exempt			
6 month Project Notes	5.60	5.90	4.60
1 year AAA Bond	5.75	5.75	5.25
5 year AAA Bond	7.40	7.40	6.50
20 year AAA Bond	9.70	9.70	8.85

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Apr. 13, 1984

Recent events have given the market reason to be more optimistic about prospects for interest rate declines. The economy as well as the monetary aggregates are showing signs of slowing their rapid pace of growth. Yet, there is a dark side to the good news. Harsh March weather may be contributing to the weakness in the economic numbers. Other special factors, particularly those related to the (then) approaching April tax deadline, may have distorted the March monetary data. Credit growth remains rapid and above target. But the glimmer of hope remains.

The monetary aggregates are showing signs of slowing: In February, M1 grew at a 6.7% annual rate; March saw this drop to a 5.5% rate. Similarly, M2's growth has slowed, but more sharply, from 8.6% to 3.5%. M3's heated pace of 10.1% in February has cooled to 8.4% in March. In terms of its long-run target, M1's 6.9% growth from its November-centered target base is within its 4%-8% band. M2's growth at 6.4% is close to its lower band of 6% and well off its 9% target top. M3 alone is near its targeted maximum rate (of 9%), growing at an 8.7% clip from its November-centered base. In terms of its weekly target, M1's performance is much more dramatic: It fell from just one-tenth of \$1 billion below the top of its target to be just \$2 billion above its target bottom--in one week! But money growth can be erratic. What can we tell from these statistics?

First, note that the slowing is spread across the aggregates, M1 through M3. Next, remember that money growth can be a good leading indicator. Monetarists believe this because they think that money is a prime causal factor. I reject this emphasis. But I encourage an interpretation of the short-term monetary data as being "money demand data" rather than "money supply data." After all, the Fed controls the quantity of reserves in the banking system on a week-to-week basis, not the quantity of money--that's the result of demand forces. Reserves can support different amounts of money (M1, M2, or M3), depending on how depositors choose to hold their money balances: As currency? As demand deposits? As CDs? As MMDA deposits? Depending on deposit preferences, different amounts of reserves are absorbed (and money "supplied").

As income growth slows, depositors tend to hold fewer balances of all types. Thus a slowing in "money" might be the harbinger of a slowing in economic growth. Slower money growth therefore may stem from an incipient slowing in the economy rather than from a capricious shift in depositors' preferences for money.

Money demand relationships are notoriously fickle. Statistical efforts to explain and predict wiggles in money demand fail if the objective is to be able to understand all the short-term determinants of those demands. But in the first quarter, we know nominal GNP is growing fast (about a 12% rate). Even so, M1 is within its target range, growing at a 7.5% rate, quarter over quarter. This means M1's velocity is rising at a 4.5% rate (12.0% minus 7.5%)--quite rapid. The decline in M1's growth rate may mean a further increase in M1's already fast growing velocity (possibly a demand shift). Alternatively, it may signal that nominal GNP is slowing its growth. The widespread slowing of the aggregates makes more reliable the conclusion that it's the economy that's slowing. There is reason to be optimistic on interest rates, but also to be cautious.

Robert A. Brusca



Irving Trust

Market Yields

	4/13/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.00	12.00%	10.50%
Effective since	4/5/84		
Discount Rate at Federal Reserve Bank	9.00	8.50	8.50
Federal Funds	10.19	10.38	8.63
Repurchase Agreements	10.10	10.38	8.63
U.S. Treasury Issues			
Bills			
3 months	10.06	10.07	8.39
6 months	10.41	10.49	8.69
1 year	10.74	10.78	8.93
Coupons			
2 years	11.47	11.55	9.49
4 years	12.00	12.11	9.86
7 years	12.34	12.45	10.21
10 years	12.41	12.53	10.32
Long Bond	12.45	12.57	10.38
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.15	10.30	8.55
3 months	10.30	10.35	8.55
6 months	10.60	10.60	8.70
1 year	11.15	11.25	9.10
Banker's Acceptances			
1 month	10.33	10.42	8.60
3 months	10.56	10.61	8.60
6 months	10.87	10.86	8.70
Eurodollar Deposits			
1 month	10.63	10.81	9.00
2 months	10.69	10.88	9.13
3 months	10.88	10.93	9.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.21	10.41	8.76
1 month	10.28	10.48	8.68
3 months	10.40	10.40	8.81
Bank Holding Companies			
1 month	9.71	9.71	8.68
Dealer Placed:			
3 months	10.56	10.65	8.78
New AA Corporate Utility Bond	13.50	13.70	11.65
Tax Exempt			
6 month Project Notes	5.55	5.60	4.60
1 year AAA Bond	5.75	5.75	4.75
5 year AAA Bond	7.40	7.40	6.50
20 year AAA Bond	9.40	9.70	8.25

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

4/25/84 B-1750-1
Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Apr. 20, 1984

For the last two weeks the market has embraced the slogan "no news is good news." Prices on long- and short-dated financial instruments have declined on any economic news, whether or not it was "good for the market." News of slower retail sales in March; lower rates of growth for M1, M2, and M3 in March; a one-week drop of \$5.0 billion for M1; and the sharpest one-month decline in housing starts ever recorded did not encourage the bond market: In fact, prices generally moved lower. On Thursday the release of first-quarter GNP finally gave the bond market bad news, and prices dropped even further. Ironically the sharp 8.3% rate of real growth posted by the economy in the first quarter of 1984 probably sets the stage for better market performance and lower interest rates ahead.

The rationale for this optimistic statement involves the composition of GNP growth in the first quarter and its likely effect on second-quarter growth. Those forecasting an economic slowdown in the second quarter are going to get help from an inventory cycle. First-quarter GNP growth was so strong largely because of an inventory buildup. The increase in inventories--the largest quarterly increase ever--by itself added 4.6 percentage points to the GNP growth rate. Therefore, if all other components of GNP grew in the second quarter just as they did in the first, and inventory accumulation remained at its record high rate, GNP growth would be reduced to about 3½% in the second quarter.

Of course other things also change in the economy. But the inventory cycle is something to depend on. Inventory accumulation can't possibly replicate its recent acceleration in the second quarter; it could rise just a little more, hold steady, or, more likely, decline. As for the other components of GNP, there is some tentative evidence of weakening in consumer demand. The increase in inventories makes more likely a cutback in production unless consumer demand picks up sharply. It therefore seems unlikely that the consumer sector or industrial sector will surge enough to forestall a decline of GNP's growth rate to the 3% range.

Of all the news released recently, only credit growth suggests a problem. Short-term credit has been growing rapidly, at a 27% annual rate during March. However, much of this is to finance inventory investment. If the growth of investment in inventory slows, so will the growth of credit. While the Fed targets a credit measure, it also realizes that this measure can't be controlled at all points in time. I think the Fed will be wary of the strong growth in credit but will temper its reaction depending on the growth in money and the real economy. As growth in money and in the economy slows, the Fed will have room to take pressure off of short-term interest rates.

Robert A. Brusca



Irving Trust

Market Yields

	4/19/84 (Closed)	Week Ago (Fri.)	Year Ago (Fri.)
Prime Lending Rate at Irving Trust Company	12.00%	12.00%	10.50%
Effective since	4/5/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	10.63	10.19	8.50
Repurchase Agreements	10.32	10.10	8.50
U.S. Treasury Issues			
Bills			
3 months	10.08	10.06	8.44
6 months	10.48	10.41	8.74
1 year	10.95	10.74	8.98
Coupons			
2 years	11.71	11.47	9.60
4 years	12.28	12.00	9.97
7 years	12.65	12.34	10.35
10 years	12.73	12.41	10.44
Long Bond	12.77	12.45	10.54
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.38	10.15	8.50
3 months	10.55	10.30	8.55
6 months	10.87	10.60	8.75
1 year	N.A.	11.15	9.15
Banker's Acceptances			
1 month	10.56	10.33	8.50
3 months	10.79	10.56	8.55
6 months	11.15	10.87	8.75
Eurodollar Deposits			
1 month	10.87	10.63	9.06
2 months	10.93	10.69	9.13
3 months	11.06	10.88	9.19
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.16	10.21	8.63
1 month	10.59	10.28	8.68
3 months	10.67	10.40	8.81
Bank Holding Companies			
1 month	9.84	9.71	8.30
Dealer Placed:			
3 months	10.72	10.56	8.54
New AA Corporate Utility Bond	13.80	13.50	11.65
Tax Exempt			
6 month Project Notes	5.65	5.55	5.20
1 year AAA Bond	5.75	5.75	5.25
5 year AAA Bond	7.40	7.40	6.40
20 year AAA Bond	9.40	9.40	8.60

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

Apr. 27, 1984

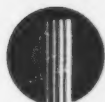
After an extended period of unruliness, money growth seems to be ready to behave itself. For several years, particularly 1983, the Fed has found it hard to control the growth of M1. Earlier this year, we had another difficult situation for M1 growth when the Fed benchmarked M1 and re-estimated its seasonal factors. This process took M1 from the bottom to the middle of its 1983 target and from the bottom to the top of its 1984 target. At the time of this revision, the economy was registering surprisingly strong growth. The end result, in retrospect, is that even the upward revised M1 looks surprisingly weak in the context of strong GNP growth. Put another way: M1 has begun to experience a resurgence in the growth of its velocity. This means money growth may turn out to be less of a problem than some had feared.

In the first quarter of this year, nominal GNP grew at an annual rate of 12.8% compared to 7.4% for M1, implying a 5.4% increase in M1's velocity. This is stronger than M1's average velocity growth through the 1970s and in sharp contrast to the decline in velocity during 1982. Velocity measures the turnover rate of money. When this rate speeds up, the Fed needn't supply as much money as it otherwise would. Put another way: For a given rate of GNP growth and an established M1 target rate, M1 will sit lower in its target range the faster is its velocity growth. Thus it was M1's velocity rise that kept it within its target range of 8% in the first quarter.

Notwithstanding this fairly positive development, there are reasons to be cautious; there is food for the bears. The April-June period has frequently been one of difficulty in terms of seasonally adjusting M1. Right now, some analysts are very concerned about the prospects for very strong (10% or more) money growth in May. Conversely, others (myself included) expect that the May seasonals will not cause fast money growth. The seasonal factors, however, do seem to imply volatile money growth. Beginning next week, it appears that money may fall sharply and then rise strongly, with a continuation of that choppy pattern for a number of weeks. But although money growth will be erratic, I anticipate that M1 will remain, broadly speaking, around the midpoint of its target.

The conventional wisdom of the marketplace is that the economy will slow (at least for the second quarter). This should help to underpin slower M1 growth: People tend to hold money in relation to their income, so as income growth slows so does the growth in money demand. However, the income velocity of money is also an important factor, and it is erratic. It represents the slippage in the GNP/money relationship. If velocity remains on its higher (or normal) growth track, M1 growth will tend to slow. If the economy slows, M1, M2, and M3 will also tend to move lower in their target ranges. Because both of these events are likely to occur, there is some reason for optimism on the matter of money growth. But because forecasting money growth is a less than certain proposition, there is also good reason to be cautious.

Robert A. Brusca



Irving Trust

Market Yields

	4/27/84 (Noon)	4/19/84 (Close)	Year Ago
Prime Lending Rate at Irving Trust Company	12.00%	12.00%	10.50%
Effective since	4/5/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	10.43	10.63	8.75
Repurchase Agreements	9.50	10.32	8.50
U.S. Treasury Issues			
Bills			
3 months	9.92	10.08	8.30
6 months	10.43	10.48	8.56
1 year	10.98	10.95	8.71
Coupons			
2 years	11.86	11.71	9.36
4 years	12.35	12.28	9.74
7 years	12.68	12.65	10.14
10 years	12.75	12.73	10.27
Long Bond	12.80	12.77	10.38
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.25	10.38	8.30
3 months	10.50	10.55	8.35
6 months	10.85	10.87	8.45
1 year	11.50	N.A.	8.90
Banker's Acceptances			
1 month	10.25	10.56	8.46
3 months	10.50	10.79	8.43
6 months	10.90	11.15	8.55
Eurodollar Deposits			
1 month	10.68	10.87	8.81
2 months	10.87	10.93	8.88
3 months	11.00	11.06	8.88
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.16	10.16	8.63
1 month	10.43	10.59	8.56
3 months	10.51	10.67	8.54
Bank Holding Companies			
1 month	9.84	9.84	8.17
Dealer Placed:			
3 months	10.72	10.72	8.56
New AA Corporate Utility Bond	14.00	13.80	11.60
Tax Exempt			
6 month Project Notes	5.65	5.65	4.80
1 year AAA Bond	6.00	5.75	4.75
5 year AAA Bond	7.45	7.40	6.30
20 year AAA Bond	9.50	9.40	8.20

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

May 4, 1984

Yesterday, M1 dropped sharply to the bottom of its target range. Last month, M1's growth rate from its fourth-quarter 1983 base averaged only about 5% at an annual rate. Despite a great deal of good news recently, the bond market has been unable to improve. Indeed with M1 growth exceptionally weak, and M2 and M3 within their targets, the bond market has continued to give up ground. While this is not too surprising a result shortly before a new Treasury refunding, it has now been going on for about a month. There is something to be learned from the market's inability to improve on what should be good news.

There clearly is concern about who will buy the securities the Treasury is scheduled to offer next week. Nominally they will be purchased by the government securities dealers, but the dealers are concerned about who they can distribute these to and at what price. The failure of securities to change hands after yesterday's excellent money number--as large a decline as almost anyone dared to forecast--indicated how reluctant the professional community is to increase holdings of securities at this time. If retail investors have any interest in buying long-term paper, there is no indication that they have begun to satisfy these demands. But it is auction time, and all the participants are playing their cards close to the vest.

The market may have been unnerved recently by the relatively high level of the Fed funds rate. For each of the first seven days of the current CRA period, funds have traded at a higher level than for any of the corresponding days of any previous CRA period. However, at its press conference on Thursday, the Fed "explained away" the high Fed funds rate of early this week by saying that an expected drawdown in Treasury balances had failed to materialize. Therefore, the market was left less liquid than the Fed had intended. The three-day RPs the Fed executed on Monday (April 30) probably didn't put the market in the position the Fed had hoped for. These RPs were not renewed Thursday because Social Security payments and net Treasury bill redemptions from the Monday bill auction will be supplying reserves. There is good reason to believe that, in addition to these Fed operations, large transfers of funds involving the financial settlement of a large merger were distorting the funds rate.

Also remember that the market is forward looking. Over the long haul, the markets remain wary of large Federal budget deficits. Near term, this becomes a fear of strong credit demand in general. Over the coming weeks, loan demand is expected to be strong, affected in part by merger-related borrowing. M1 should increase next week, but the expected rise of \$2-3 billion is not really a factor, given where M1 lies in its target range. M2 and M3 will also be released next week: M2 should register moderate growth; M3 might be a bit of a problem. Even so, the news on the horizon isn't really that bad. Right now, the worst problem is the market's gloomy psychology.

Robert A. Brusca



Irving Trust

Market Yields

	5/4/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.00%	12.00%	10.50%
Effective since	4/5/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	10.00	10.43	8.38
Repurchase Agreements	9.50	9.50	8.38
U.S. Treasury Issues			
Bills			
3 months	10.20	9.92	8.30
6 months	10.80	10.43	8.43
1 year	11.22	10.98	8.59
Coupons			
2 years	12.02	11.86	9.23
4 years	12.53	12.35	9.63
7 years	12.87	12.68	10.08
10 years	12.95	12.75	10.16
Long Bond	12.98	12.80	10.30
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.50	10.25	8.30
3 months	10.65	10.50	8.35
6 months	11.00	10.85	8.30
1 year	11.50	11.50	8.70
Banker's Acceptances			
1 month	10.41	10.25	8.31
3 months	10.68	10.50	8.33
6 months	11.10	10.90	8.39
Eurodollar Deposits			
1 month	10.75	10.68	8.69
2 months	11.00	10.87	8.75
3 months	11.18	11.00	8.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.87	10.16	8.51
1 month	10.34	10.43	8.42
3 months	10.41	10.51	8.41
Bank Holding Companies			
1 month	9.83	9.84	8.17
Dealer Placed:			
3 months	10.62	10.72	8.44
New AA Corporate Utility Bond	14.30	14.00	11.30
Tax Exempt			
6 month Project Notes	5.65	5.65	4.70
1 year AAA Bond	5.75	6.00	5.00
5 year AAA Bond	7.40	7.45	6.30
20 year AAA Bond	9.75	9.50	8.30

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

64750-1

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

May 11, 1984

It's an election year, and interest rates are rising fast--so much for the political theory of interest rate determination. Politics, however, are not absent. Mr. Martin, a member of the FOMC and a Reagan appointee, has spoken out strongly against a policy of rising rates. Mr. Feldstein, Chairman of the President's Council of Economic Advisors, is going back to Harvard, but he's still in favor of Fed policy. Mr. Regan, Secretary of the Treasury, was content with Fed policy two weeks ago, but now he's not a fan of the Fed. Yet the political factors seem quite unimportant at the moment. The Fed is doing what it feels must be done. However, politics remind the Fed that the risks are great should those policies be in error. The worst scenario (politically) for the Fed would be for high rates to induce several consecutive quarters of anemic growth or even recession. What is the effect of these interest rates?

Interest rates are high. They appear even higher if put on a "real" basis. The point here is that inflation is much lower now than it was in 1980-1982, and although interest rates are lower too, the "real" interest rate is also quite high (here I define real interest as the nominal rate less CPI inflation over the past 12 months). Currently the real rate on three-month CDs is over 6% (11.4% on CDs less 5% inflation). This compares with -0.5%, 5.6%, and 6.1% in 1980, 1981 and 1982 respectively. For long bonds (20-year Treasury) the real rates were -2.2%, 3.4%, and 6.7% for 1980, 1981 and 1982 respectively; compare this to over 8% now. However, rates impact the economy with quite a lag. Also, rates need to be quite high to really slow the economy, and to do this the high rates must persist for quite a period of time. In this regard I believe the Fed is acting differently, more cautiously, than it was right after October 1979. Therefore, the risk of a Fed-induced recession is lessened.

One reason for the Fed to be cautious is the more fragile nature of the economy. Near-term economic developments are more a function of "normal" cyclical developments than of anything else, and these portend strength. But the underlying economy is not necessarily healthy. A lot of streamlining has been done to business operations, but we are only one year out of a severe recession. My favorite analogy for the economy is that of a prize fighter in the late rounds. The punch that he could shrug off in round 1 will knock him out in round 10. We have an economy staging a strong comeback from a beating in "the early rounds"; but some sectors such as farm and capital equipment remain quite weak, and the Fed can't forget the beating that the economy has already taken.

This is why the Fed will be more cautious. The weakened condition is an even more pronounced phenomenon for the LDCs. As the cyclical thrust of the U.S. economy wanes, the restrictive nature of and forces behind interest rates will be felt. Being aware of the lags of policy, the Fed will be careful. As for investors, they seem to "fear" much more than they "hope." The bond market has gone far beyond the ability of current real interest rates to explain its performance. Current yields seem to anticipate a significantly higher and enduring inflation rate. What evidence is there that that's a reasonable forecast?

Robert A. Brusca



Irving Trust

Market Yields

	5/11/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.50%	12.00%	10.50%
Effective since	5/8/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	10.63	10.00	8.25
Repurchase Agreements	10.13	9.50	8.25
U.S. Treasury Issues			
Bills			
3 months	10.24	10.20	8.30
6 months	10.85	10.80	8.49
1 year	11.46	11.22	8.69
Coupons			
2 years	12.37	12.02	9.28
4 years	12.86	12.53	9.68
7 years	13.23	12.87	10.11
10 years	13.36	12.95	10.20
Long Bond	13.42	12.98	10.36
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.00	10.50	8.25
3 months	11.40	10.65	8.30
6 months	11.90	11.00	8.45
1 year	12.30	11.50	8.80
Banker's Acceptances			
1 month	11.10	10.41	8.26
3 months	11.47	10.68	8.37
6 months	11.81	11.10	8.46
Eurodollar Deposits			
1 month	11.38	10.75	8.69
2 months	11.75	11.00	8.75
3 months	12.00	11.18	8.81
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.62	9.87	8.26
1 month	10.75	10.34	8.42
3 months	10.73	10.41	8.41
Bank Holding Companies			
1 month	10.19	9.83	7.97
Dealer Placed:			
3 months	11.36	10.62	8.41
New AA Corporate Utility Bond	14.75	14.30	11.30
Tax Exempt			
6 month Project Notes	5.80	5.65	4.75
1 year AAA Bond	6.25	5.75	5.00
5 year AAA Bond	7.60	7.40	6.50
20 year AAA Bond	9.90	9.75	8.15

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

May 18, 1984

The current watchword for Fed policy is caution. The Fed has been careful with policy for some time; Fed funds (the weekly average rate) broke the 10% level on March 21; and seven weeks later, Fed funds generally are trading only about half a percentage point higher. Other rates have risen much faster, however, with three-month CD rates rising 89 basis points, and 20-year Treasuries rising 67 basis points over the same period. The recent rise in rates has been sharp; the general rising trend dates back to February. As mentioned in last week's letter, there is now a substantial premium of interest rates to the current rate of inflation. However, it is the sharp rise in nominal rates that will lead the Fed to pause and to be cautious.

Over the past several weeks, a variety of incidents have revealed the fragile condition of financial markets. "Unauthorized" trading apparently led to substantial losses at one firm. Also, a government securities-trading tax shelter has fallen on hard times after suffering large losses, presumably due to trading in what has been an extremely treacherous bond market. However, the Fed is likely to turn its head more because of the recent liquidity problems at Continental Illinois. What will attract the Fed's attention the most and cause a policy response is the apparent suddenness with which this problem struck. No single or known event seems to have been responsible--and this is what is disturbing. We seem to have a case of a sudden loss in investor confidence that the Fed fears might be transferable to other organizations. As a result, the Fed acted quickly along with other regulators to cement confidence.

The Fed is charged with, among other things, the maintenance of orderly conditions and well functioning financial markets. When rising rates lead to solvency or liquidity problems, the Fed's monetary policy function may come into conflict with this goal. The Fed then has the choice of backing off with monetary policy or going ahead with it while patching up the financial situation with some structural solution. Generally the Fed will opt to leave monetary policy "on course" and try to use other means to solve the problems of floundering institutions. However, critical to the Fed's actual policy choice is the way in which the problem is perceived. If an institution has purely internally generated problems, the Fed will ignore these for monetary policy purposes. If an institution is being battered by general market forces, the Fed is more likely to swerve in its policy course, especially if these problems seem to be transferable.

Right now the Fed is probably swerving. It will likely put any further upward thrust in rates on hold for at least a week or two, until market conditions become more settled. The Fed must be concerned about investor psychology, which seems to be in bad shape. But while policy will pause here, we can't be certain that the upward move in rates will stop. It is a time for caution, not only to rebuild confidence in the financial system, but also to watch the economy and see if any further tightening might be appropriate.

Robert A. Brusca



Irving Trust

Market Yields

	5/18/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.50%	12.50%	10.50%
Effective since	5/8/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	9.25	10.63	8.63
Repurchase Agreements	8.63	10.13	8.50
U.S. Treasury Issues			
Bills			
3 months	10.18	10.24	8.43
6 months	10.94	10.85	8.70
1 year	11.66	11.46	8.96
Coupons			
2 years	12.47	12.37	9.58
4 years	12.99	12.86	9.98
7 years	13.38	13.23	10.39
10 years	13.47	13.36	10.48
Long Bond	13.48	13.42	10.64
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.50	11.00	8.55
3 months	11.10	11.40	8.60
6 months	11.70	11.90	8.75
1 year	12.25	12.30	9.15
Banker's Acceptances			
1 month	10.59	11.10	8.46
3 months	11.21	11.47	8.63
6 months	11.86	11.81	8.79
Eurodollar Deposits			
1 month	10.75	11.38	8.94
2 months	10.38	11.75	9.00
3 months	10.69	12.00	9.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.76	10.62	8.51
1 month	10.29	10.75	8.56
3 months	11.05	10.73	8.68
Bank Holding Companies			
1 month	9.93	10.19	8.56
Dealer Placed:			
3 months	11.21	11.36	8.66
New AA Corporate Utility Bond	14.85	14.75	11.40
Tax Exempt			
6 month Project Notes	5.80	5.80	4.75
1 year AAA Bond	6.50	6.25	5.25
5 year AAA Bond	7.80	7.60	6.60
20 year AAA Bond	9.90	9.90	8.50

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

May 25, 1984

This past week has taken the financial markets through bizarre twists and turns that underline the financial precariousness of the times. The long-term markets refuse to settle down; bonds continue to register successively deeper discounts. Despite the clear signal that the markets fear large federal deficits, there is no evidence of substantial progress on this matter. Adding to this anxiety has been concern over the financial system, particularly a jitteriness about banks. This feeling persists even after the Fed and other regulators rushed to the aid of Continental Illinois. What do we learn from watching these market forces?

The most obvious signal here is that markets are unsettled. As rumors of further banking problems circulated on Thursday, the dollar fell from DM2.74 to as far as DM2.70, a fairly precipitous drop for one day. A wide range of bank stocks fell on bad times, and spreads widened sharply between the yields on three-month Treasury bills and on other open market paper. The catalyst for these events seems to have been an announcement by a Treasury spokesman to the effect that U.S. participation in an aid package for Argentina was less likely than had been thought before. But why should we get such a reaction to this statement?

The rationale is lacking here. Instead of logical, carefully distinguished credit judgments, we see the market overly reactive to public announcements in the bluntest way possible. The Treasury spokesman's statement (later modified) was not reassuring. But the Fed has been so quick to act, and regulators so comprehensive in their support of Continental Illinois, that it is hard to see why there are such strong perceptions of risk by the market. This is not to deny the phenomenon but to confront the nature of this fear.

The FOMC met earlier this week and set a course for monetary policy. Certainly this atmosphere of anxiety pervaded the Committee's deliberations. Recent events have indeed put the Fed between "a rock and a hard place." Financial distress calls for them to ease, even if the distress is more perceived than real. But the large budget deficits raise fears of the opposite kind: fears of inflation. To calm these fears, policy must remain taut.

One thing we can be sure of is that short-term factors will dominate if they become of great enough concern. This tilts the Fed toward ease to take pressure off the financial structure. The growth of aggregate demand in the economy may be strong, but financial problems are deep-rooted. The events of the past few years took a toll on financial and nonfinancial corporations as well as on the LDCs. Economic strength is mostly confined to the U.S., stimulated by tax cuts and large fiscal deficits. The rest of the world needs this stimulus, but growth in the U.S. must slow its rapid pace. Clearly it will take more than just monetary policy to accomplish all of these goals, but for now the Fed is alone.

Robert A. Brusca



Irving Trust

Market Yields

	5/25/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.50	12.50%	10.50
Effective since	5/8/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	10.00	9.25	8.50
Repurchase Agreements	9.13	8.63	8.13
U.S. Treasury Issues			
Bills			
3 months	10.16	10.18	8.74
6 months	11.17	10.94	9.01
1 year	11.94	11.66	9.23
Coupons			
2 years	12.81	12.47	9.86
4 years	13.29	12.99	10.18
7 years	13.64	13.38	10.54
10 years	13.80	13.47	10.58
Long Bond	13.80	13.48	10.74
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.40	10.50	8.65
3 months	11.30	11.10	8.80
6 months	11.85	11.70	9.10
1 year	12.65	12.25	9.40
Banker's Acceptances			
1 month	10.50	10.59	8.66
3 months	11.20	11.21	8.85
6 months	12.00	11.86	9.10
Eurodollar Deposits			
1 month	10.88	10.75	9.06
2 months	11.25	10.38	9.13
3 months	11.75	10.69	9.25
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	7.01	8.76	8.63
1 month	10.39	10.29	8.68
3 months	10.99	11.05	8.81
Bank Holding Companies			
1 month	10.08	9.93	8.30
Dealer Placed:			
3 months	10.68	11.21	8.89
New AA Corporate Utility Bond	14.90	14.85	11.65
Tax Exempt			
6 month Project Notes	5.85	5.80	4.75
1 year AAA Bond	6.70	6.50	5.50
5 year AAA Bond	8.05	7.80	7.00
20 year AAA Bond	10.40	9.90	9.10

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

June 1, 1984

Late March FOMC notes seem to have had a chilling effect on the markets. These notes, released on May 25, indicate that as of late March the Fed was taking, or was prepared to take, a tougher stand than most observers thought. Raising the band for Fed funds to the $7\frac{1}{2}\%$ to $11\frac{1}{2}\%$ range was an aggressive move at that time. However, we must now reappraise those late March deliberations and put them in the context of these times. What has the Fed been worried about and how is it likely to react to events since the March meeting?

As of the March meeting, the monetary aggregates were well behaved. M1 was growing at less than a 7% rate and was generally expected to slow its rate of growth. M2 was crawling at a $6\frac{1}{2}\%$ pace, near its lower limit of 6%. M3's 9.2% rate of growth was essentially at its targeted 9% maximum rate. Relative to their interim targets, the monetary aggregates stacked up about the same. Thus the Fed's resetting of interim targets at the March meeting (for the March-June period) was an accommodation to unfolding events. The rate for M1 was set at $6\frac{1}{2}\%$, one-half of a percentage point lower than before; but M1's growth was expected to slow (its velocity was rebounding strongly). M2's growth rate was left at 8%, thereby accommodating a sharp pickup, were it to occur. M3's rate was lifted one-half of a percentage point to $8\frac{1}{2}\%$, less than the long-term target, but M3 was already marginally over the top of its range. Thus the monetary target resetting does not seem to have been done with an intent to create a situation where tightening would necessarily be triggered.

The Fed's actions, however, were not accommodative. The Fed decided to tighten and felt it was unlikely that conditions would allow it to ease. The economy was still quite strong at that time, and the Fed noted that credit demands were strong--even after accounting for merger-related borrowing. But in retrospect this conclusion doesn't hold up. Just released flow-of-funds data show that in 1984, first-quarter net new equity issues by nonfinancial corporations declined by \$15 billion. Comparing this to the fourth quarter of 1983 (an increase of \$5 billion) we find a decline of \$20 billion dollars in the inflow of noncredit market funds--much of this is merger and buyout related stock retirement. Coincidentally that sharp increase in short-term business credit in the first quarter was about \$20 billion.

Looking at total business credit in the first quarter, we find it is cyclically normal or weak, not strong. It's short-term credit that is fast-growing. This is true for the household as well as the business sector, at least if we classify debt by the maturity of its repricing--variable rate mortgages are then the short-term instruments used by households. High interest rates have effectively shut down the long-term private sector markets for both business and households. This emphasis on short-term borrowing increases the economy's vulnerability to a rise in interest rates. This is of concern to the Fed, but what can the Fed do? The answer is, "not much." But the Fed is leaning on the restrictive side even as financial hardships become apparent. The Fed seems unable to lean much more without falling over.

Robert A. Brusca



Irving Trust

Market Yields

	6/1/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.50	12.50	10.50
Effective since	5/8/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	10.38	10.00	8.63
Repurchase Agreements	9.63	9.13	8.63
U.S. Treasury Issues			
Bills			
3 months	10.16	10.16	8.84
6 months	11.29	11.17	9.20
1 year	12.04	11.94	9.39
Coupons			
2 years	12.92	12.81	10.02
4 years	13.44	13.29	10.38
7 years	13.73	13.64	10.74
10 years	13.80	13.80	10.78
Long Bond	13.73	13.80	10.92
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.70	10.40	8.80
3 months	11.30	11.30	8.95
6 months	11.95	11.85	9.20
1 year	12.90	12.65	9.55
Banker's Acceptances			
1 month	10.69	10.50	8.87
3 months	11.13	11.20	9.00
6 months	11.98	12.00	9.16
Eurodollar Deposits			
1 month	11.13	10.88	9.13
2 months	11.38	11.25	9.25
3 months	11.69	11.75	9.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.32	7.01	8.76
1 month	10.59	10.39	8.94
3 months	10.78	10.99	9.07
Bank Holding Companies			
1 month	10.08	10.08	8.81
Dealer Placed:			
3 months	11.31	10.68	9.04
New AA Corporate Utility Bond	14.90	14.90	11.70
Tax Exempt			
6 month Project Notes	5.80	5.85	4.95
1 year AAA Bond	6.75	6.70	5.50
5 year AAA Bond	8.25	8.05	7.00
20 year AAA Bond	10.25	10.40	9.50

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

June 8, 1984

On Thursday, June 7, the Fed reported that M1 registered a decline of \$2.4 billion, a large drop in light of expectations of a small rise. This left M1 \$3.7 billion below the top of its range and \$1.9 billion above the midpoint of its range. After the release there was some follow-through from a rally begun earlier, but that eventually evaporated. The reason that the markets are not pleased with a decline in M1 is that M1 has not been important so far this year; neither have the other monetary aggregates for that matter. Let's look back at money growth so far this year and see what it has done, what the growth means, and the circumstances under which money growth might become important.

Within M1, demand deposit (DD) growth has been very weak, growing at an annual rate of 1.8% through April. Other checkable deposits (OCDs), the other important M1 component, which is largely NOW accounts, has raced ahead with monthly growth rates of up to 30%; but this rapid growth did abate--sharply--in April, reducing its annual growth rate to 9.4% over the fourth-quarter 1983 to April 1984 period. This slowing seems not to have been due to high interest rates because the rapid growth has resumed in May. The April slowing in DDs and OCDs now seems to be totally a function of April tax payments.

For M2 components (other than those in M1) growth rates have been low to moderate. Overnight Eurodollars have declined at a 25% rate, and low-interest-bearing savings deposits have run off at a slow 2.8% clip. The more interest-sensitive components are growing faster: overnight RPs, 11%; money market mutual funds, 14%; bank MMDAs, 15%; and small time deposits, 9½% (all of these rates are fourth quarter 1983 through April 1984). The net result of these factors is to leave M2 a slow-growing aggregate.

M3 components (those not in M2) have grown much more rapidly during this same period. M3 generally contains items thought of as banks' managed liabilities. That is, banks really don't refuse small time deposits (TDs), demand deposits, or MMDA deposits offered by their customers. But for large TDs, term RPs, and the like, customers are so rate sensitive that by adjusting rates, banks can attract or repel funds. Hence these are called managed liabilities. These have grown very rapidly: large TDs, 21%; term RPs, 65%; term Eurodollars, 12½%; and institutional MMMFs, 9½%. Banks have aggressively pursued deposits to fund the strong loan demands of their customers. Thus M3 has hovered at and above the top of its target all year long.

M3 growth has been driven by strong short-term credit growth. M2's weak growth indicates a better behaved money demand by individuals. M1 is still an uncertain entity; its velocity is looking more stable and trend-dominated. This could mean a renewed emphasis on M1; such a development would mean that M1 would probably have to grow at its midpoint rate of 6% or less to satisfy the Fed. Conversely, M3's target is extremely tight, as that aggregate has a trendless velocity. M3 has been driven above its target by strong real GNP growth, not by stronger-than-expected inflation. All this talk about velocity is a weak disguise for an emphasis on GNP growth. That's been the Fed's real problem so far. Signals of moderation in this growth are in the air. But they are hovering and haven't landed yet. When the slowing is more certain, the Fed can place renewed emphasis on money growth. Until then, the Fed will ignore slow-growing money and probably bite its lip if money growth accelerates.

Robert A. Brusca



Irving Trust

Market Yields

	6/8/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.50%	12.50%	10.50%
Effective since	5/8/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	10.69	10.38	8.63
Repurchase Agreements	10.38	9.63	8.63
U.S. Treasury Issues			
Bills			
3 months	10.23	10.16	8.84
6 months	11.26	11.29	9.20
1 year	12.05	12.04	9.39
Coupons			
2 years	12.77	12.92	10.02
4 years	13.20	13.44	10.38
7 years	13.51	13.73	10.74
10 years	13.53	13.80	10.78
Long Bond	13.47	13.73	10.92
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.75	10.70	8.80
3 months	11.13	11.30	8.95
6 months	11.75	11.95	9.20
1 year	12.50	12.90	9.55
Banker's Acceptances			
1 month	10.95	10.69	8.87
3 months	11.31	11.13	9.00
6 months	12.14	11.98	9.16
Eurodollar Deposits			
1 month	11.13	11.13	9.13
2 months	11.38	11.38	9.25
3 months	11.63	11.69	9.38
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.75	10.32	8.76
1 month	10.95	10.59	8.94
3 months	10.88	10.78	9.07
Bank Holding Companies			
1 month	10.33	10.08	8.81
Dealer Placed:			
3 months	11.15	11.31	9.04
New AA Corporate Utility Bond	14.55	14.90	11.70
Tax Exempt			
6 month Project Notes	5.85	5.80	4.95
1 year AAA Bond	6.25	6.75	5.50
5 year AAA Bond	8.15	8.25	7.00
20 year AAA Bond	10.25	10.25	9.50

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

June 15, 1984

Over the past week the Fed funds rate has tended toward the 11% level with unsettling frequency. Funds closed tight at the end of the Fed's last statement period, averaging 11.03% on the last day. Since then the daily average funds rate has been above 10.75% on four of five business days. This is a much higher level than has been maintained in previous periods, but it corresponds to the higher funds rate we began to see in the last reserve maintenance period. As a result, market participants have been cautious. Short-term rates have bounced around somewhat, while long-term rates improved. However, both short and long rates declined on Thursday after the release of M1, M2 and M3 data. This is perplexing because these data were not good (money growth was strong across the board). What are these markets telling us?

The market tea leaves are brewing something that seems quite inconsistent. The long end of the market wants to lead rates down at the very time short rates are being more strongly underpinned by the Fed. While the yield curve certainly may have some room to flatten, we must wonder whether or not conditions exist that square with such a twist of events at this time.

One positive development is the (seeming) willingness of the bond market to concede that good news might exist somewhere. Yet what perplexes is that this reaction occurs now. We certainly must characterize this move as speculative and not reactive. The Fed has kept reserve conditions tight; plus the money numbers showed a larger-than-expected weekly rise in M1 (leaving it \$1.2 billion short of the top of its long-run range); faster-growing M2 (still \$4 billion short of the midpoint of its long-term range, but \$0.5 billion over its interim range); accelerating M3 growth (now \$9.7 billion over its long-term range and nearly \$8 billion above its interim range). In addition to these aggregates, the Fed's credit aggregate posted a 13.4% rate of growth in April (or 13.1% from its December base), exceeding its 11% allowable rate. Thus all the monetary data were bad. Even the weekly credit numbers showed C&I loans in New York up \$1.1 billion, and nonfinancial commercial paper up \$2.1 billion. This is why I characterize the bond market's behavior as speculative, not reactive.

Surely the bond market is anticipating upcoming economic data. Already there are mixed--not clear--signs of a slowing in the economy. The market may be encouraged, but will we get enough slowing for the Fed to ease? In the short run, the best bet seems to be "no." There is no reason to infer that the markets think that the Fed funds rate will decline soon, if we judge from the spread of funds to CDs; it's about normal. CDs may turn out to have rates that are too high, but the market is wary of the Fed. In any event, short rates are more constrained by Fed action than long rates. But can the long-term market rally much further unless the Fed validates the rally? Budget deficits still overhang the bond market. There can be no real lasting party if the Fed is still imposing a strict curfew. While I think the market--not the Fed--will have to lead rates down, I would suggest a wait-and-see attitude to the bond market's most recent jubilation.

Robert A. Brusca



Irving Trust

Market Yields

	6/15/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.50%	12.50%	10.50%
Effective since	5/8/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	11.13	10.69	8.88
Repurchase Agreements	10.75	10.38	8.88
U.S. Treasury Issues			
Bills			
3 months	10.25	10.23	8.95
6 months	11.08	11.26	9.28
1 year	11.80	12.05	9.50
Coupons			
2 years	12.66	12.77	10.08
4 years	13.04	13.20	10.03
7 years	13.21	13.51	10.62
10 years	13.23	13.53	10.67
Long Bond	13.16	13.47	10.75
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.80	10.75	9.00
3 months	11.10	11.13	9.10
6 months	11.70	11.75	9.45
1 year	12.55	12.50	9.75
Banker's Acceptances			
1 month	11.00	10.95	8.99
3 months	11.22	11.31	9.15
6 months	11.92	12.14	9.45
Eurodollar Deposits			
1 month	11.31	11.13	9.38
2 months	11.38	11.38	9.44
3 months	11.56	11.63	9.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.87	10.75	9.02
1 month	11.00	10.95	9.19
3 months	11.09	10.88	9.21
Bank Holding Companies			
1 month	10.48	10.33	8.68
Dealer Placed:			
3 months	11.41	11.15	9.24
New AA Corporate Utility Bond	14.25	14.55	11.80
Tax Exempt			
6 month Project Notes	5.75	5.85	4.90
1 year AAA Bond	6.40	6.25	5.50
5 year AAA Bond	8.10	8.15	6.75
20 year AAA Bond	10.00	10.25	8.70

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629



Irving Trust

Financial Markets

B4750 -1A

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

June 22, 1984

The markets sagged this week following news that first-quarter real GNP growth was at an even faster pace than was previously thought--9.7%--and a second-quarter "flash" estimate of 5.7% growth. This was bad news for the financial markets, even though it showed a strongly growing economy; to most people that would be considered good news. The adverse element for the markets was the continued rapid economic expansion in an economy that is viewed as beginning to approach capacity constraints. The operational question concerns whether the economy is growing too fast now for its own good in the future. What will the Fed think?

The likely Fed response depends on how the recovery is viewed. Last week I noted the bad news: fast growing money and credit. To this we now add faster than expected growth in consumer demand and in business investment. While there is no sign of inflationary pressure now (the "flash" estimate of the GNP deflator showed a modest 2.8% increase), the Fed's gaze is focused on the future. Capacity utilization rates now are high (82% for manufacturing), and the Fed views the dollar as precarious--about to tumble and spur inflation. A slowing in growth is sought to achieve a soft landing as full capacity is reached. So what should be done?

My preference would be for the Fed to stand pat. Rates are high, high relative to inflation. Money growth, however, has been rapid, averaging nearly 8% most of this year and having vastly overshot its original target for last year. Therefore, while some analysts point to rapid money growth and characterize the Fed's policy as expansionary, I look at interest rates relative to inflation and claim that the Fed has been tight. Unfortunately this argument doesn't impress the Fed. It seems determined to control money and credit growth, and, indeed, it seems recently to have tightened further.

In my view this policy has risks. Demand is strong, but the financial sector and foreign borrowers are vulnerable to rate increases. Let's remember that it is a Fed policy geared to control money and credit growth that is keeping the Fed funds rate high. It is this policy, in conjunction with credit demand, that is tugging on rates. Market participants hold expectations for future Fed policy, as well as for future credit growth, and these expectations affect rates today all along the yield curve. Moreover, let's not forget that interest rates impact the economy very gradually. Rates must be raised to very high levels to really stop the economy. Furthermore, we do not wish to stop the economy, just to slow it down. Current rates are doing the job, even if only slowly. Financial innovation in recent years has resulted in the discovery of 1001 different ways to index borrowings to short-term rates--for businesses and consumers. Credit is not crunched as it was in the past: no quantity rationing occurs. Credit is rationed by price alone, and this process works--but it's slow. The process squeezes financial intermediaries, LDCs, and corporations, unless their rate forecasts are excellent. Rates do slow the economy, but they affect a lot of other things as well. A strong case can be made for prudence, despite continued signs of strong economic growth.

Robert A. Brusca



Irving Trust

Market Yields

	6/22/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.50%	12.50%	10.50%
Effective since	5/8/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	11.69	11.13	9.00
Repurchase Agreements	10.38	10.75	8.88
U.S. Treasury Issues			
Bills			
3 months	10.30	10.25	9.32
6 months	11.43	11.08	9.61
1 year	12.37	11.80	9.86
Coupons			
2 years	13.22	12.66	10.41
4 years	13.61	13.04	10.73
7 years	13.73	13.21	10.96
10 years	13.77	13.23	10.96
Long Bond	13.62	13.16	11.01
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.50	10.80	9.30
3 months	11.75	11.10	9.30
6 months	12.20	11.70	9.60
1 year	13.00	12.55	9.95
Banker's Acceptances			
1 month	11.62	11.00	9.24
3 months	12.00	11.22	9.42
6 months	12.43	11.92	9.64
Eurodollar Deposits			
1 month	12.13	11.31	9.63
2 months	12.25	11.38	9.75
3 months	12.75	11.56	9.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.80	10.87	8.63
1 month	11.26	11.00	9.33
3 months	11.25	11.09	9.34
Bank Holding Companies			
1 month	10.89	10.48	9.07
Dealer Placed:			
3 months	11.84	11.41	9.56
New AA Corporate Utility Bond	14.75	14.25	12.10
Tax Exempt			
6 month Project Notes	5.75	5.75	4.80
1 year AAA Bond	6.00	6.40	5.10
5 year AAA Bond	8.05	8.10	6.50
20 year AAA Bond	10.00	10.00	9.40

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

June 29, 1984

Exhibiting a clear tendency toward fickleness, the Fed funds market has run amok and given the Fed problems. Wednesday, June 20 (a settlement date), the funds rate averaged 12.31%. The next day, funds held at an average of 11.90%; this past Wednesday, June 27, funds averaged 10.51%. This creates quite a trading range. Clearly the 12.31% can't be chalked up to settlement pressure alone, given what occurred the next day. So what's going on? Has the Fed tightened again, or hasn't it?

The Fed has tightened, probably enough to keep funds above the 11% level on a persistent basis. However, the strong funds rates of the past calendar week have their roots in something else: market psychology. The recently released GNP numbers (the revision for the first quarter and the "flash" estimate for the second quarter) affected the Fed funds market greatly. As a result, participants became more sensitive to Fed activity and feared that more Fed squeezing of reserve positions was on the way. But at the same time, the Fed was in the midst of a reserve control problem: On the five business days from June 18-June 22, the Fed executed multiday or overnight System RPs on each day. The Fed was actively adding reserves to combat a rising trend in the funds rate and a reserve-deficient banking market.

On Wednesday, June 20, \$6.4 billion of System RPs were outstanding. One thing this meant was that those RPs would be running off and draining reserves at the start of the new week. Thus the Fed stepped in on Thursday and Friday at the start of the new reserve maintenance period to add reserves (neutralize the drain). Undoubtedly, part of the reason for adding was the high Fed funds rates experienced--not just the maturing RPs. But the System RPs had little effect on Fed funds before the weekend. At the time, the RPs seemed a weak effort meant to mollify the market. But after the weekend, things changed. It began to look like the Fed had pumped some real liquidity into the market. The Fed funds rate dropped sharply. But by late Thursday (June 28), Fed funds were back near 11%.

In retrospect, the Fed's adding of reserves on June 21 and 22 seems to have been a rate motivated action. Possibly the Fed's own reserve projections did not indicate a reserve need. However, the Fed was "forced" to act to keep funds from exceeding their established band on a persistent basis (probably still 11.5% at the top). But after the markets digested the GNP numbers and a more reasonable psychology ensued, the reserves that had been injected took effect, and Fed funds began to plummet.

This story has several morals: Remember that the Fed operates using reserve projections; it doesn't see all and know all. Never underestimate the power of market psychology even in a strongly supply/demand determined market like Fed funds. Realize that Fed funds rates can swing widely, and that movements in Fed funds are hard to interpret. And remember that my interpretation still sees the Fed tightening.

Robert A. Brusca



Irving Trust

Market Yields

	6/29/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	13.00%	12.50%	10.50%
Effective since	6/25/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	11.25	11.69	9.38
Repurchase Agreements	10.00	10.38	9.38
U.S. Treasury Issues			
Bills			
3 months	10.34	10.30	9.07
6 months	11.23	11.43	9.43
1 year	12.70	12.37	9.63
Coupons			
2 years	13.18	13.22	10.23
4 years	13.65	13.61	10.63
7 years	13.79	13.73	10.92
10 years	13.82	13.77	10.94
Long Bond	13.62	13.62	11.00
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.40	11.50	9.10
3 months	11.75	11.75	9.20
6 months	12.15	12.20	9.45
1 year	13.00	13.00	9.85
Banker's Acceptances			
1 month	11.46	11.62	9.05
3 months	11.95	12.00	9.15
6 months	12.35	12.43	9.45
Eurodollar Deposits			
1 month	11.88	12.13	9.50
2 months	12.00	12.25	9.63
3 months	12.25	12.75	9.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	11.18	10.80	9.02
1 month	11.39	11.26	9.19
3 months	11.31	11.25	9.34
Bank Holding Companies			
1 month	10.89	10.89	9.07
Dealer Placed:			
3 months	11.68	11.84	9.43
New AA Corporate Utility Bond	14.88	14.75	12.15
Tax Exempt			
6 month Project Notes	5.75	5.75	4.75
1 year AAA Bond	6.50	6.00	5.50
5 year AAA Bond	8.00	8.05	7.00
20 year AAA Bond	10.20	10.00	9.40

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

July 6, 1984

The dust of the past several weeks has begun to settle. Quarter-end has passed us by. We are through with the last CRA period that saw banks settle their reserve accounts with the Fed early Tuesday because of the Wednesday holiday. Market participants have recovered from their initial reactions to the flash GNP figures and the first-quarter GNP revision. And, as we look for what remains after these special factors are swept aside, we find Fed funds trading firmly at and above 11%, essentially confirming that the Fed has tightened its belt another notch.

At this point a dilemma is suggested: 1) How much higher must rates be raised to slow the economy? 2) How can other nations withstand further U.S. interest rate increases? In this letter we have previously discussed the first question. The response to this question is that it takes very high rates for a long time. The lags involved are not well known. The critical rate levels remain a mystery and therefore a matter of judgment, for economists, for the Fed. The answer to the second question has become more interesting recently.

It is well understood that many LDCs have a debt problem. Therefore it is realized that deflationary policies hurt the LDCs. A tight monetary policy is deflationary. It restrains growth, raises interest rates, suppresses inflation, and in so doing it keeps in check commodities prices. Commodities are the primary exports of many LDCs. The Fed has hoped that growth in the U.S. would be sufficient to aid the LDCs--even if monetary policy remained restrictive. Right now this point of view is being tested. Here again there are no magic numbers, no critical rate levels, no barrier that "can't" be surpassed, but there is danger at each uptick of rates. Is this policy well conceived?

This question will be answered only by history. For now some of the risks can be spelled out. High interest rates impact U.S. residents on an after-tax basis due to the deductibility of interest rates. But interest rates bite abroad on a before-tax basis. (Indeed, this point applies to the U.S. Treasury itself as its interest expenses on the public debt are definitely not "deductible"!) In addition these high rates complicate policy-making in the highly developed and industrialized countries abroad. Previously the sophisticated internationalist scoffed at the prospect that this would lead the U.S. to alter its policy. U.S. monetary policy might create "problems" for West Germany or other EMS member countries but these were their problems--not a real reason for the U.S. to swerve its policy course.

Things differ now. The LDCs have real problems that intimately involve the U.S.: its banks, its exporters and its consumers. Our mutual dependence on nations abroad, both developed and developing, has increased. The U.S. international cold shoulder must warm. But when and how this happens remains an elusive matter. Until (or unless) a long-term "solution" to LDC debt problems is found, rises in U.S. interest rates are hard to conceive. This doesn't mean that they can't happen, but that much is at risk if interest rates in the U.S. do rise.

Robert A. Brusca



Irving Trust

Market Yields

	7/6/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	13.00%	13.00%	10.50%
Effective since	6/25/84		2/28/83
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	11.00	11.25	9.00
Repurchase Agreements	10.50	10.00	8.88
U.S. Treasury Issues			
Bills			
3 months	10.41	10.34	9.39
6 months	11.17	11.23	9.84
1 year	12.10	12.70	10.19
Coupons			
2 years	13.12	13.18	10.61
4 years	13.56	13.65	10.97
7 years	13.79	13.79	11.25
10 years	13.82	13.82	11.24
Long Bond	13.63	13.62	11.29
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.40	11.40	9.30
3 months	11.75	11.75	9.50
6 months	12.25	12.15	9.90
1 year	13.15	13.00	10.20
Banker's Acceptances			
1 month	11.51	11.46	9.30
3 months	11.90	11.95	9.55
6 months	12.49	12.35	9.85
Eurodollar Deposits			
1 month	11.81	11.88	9.75
2 months	12.06	12.00	9.88
3 months	12.31	12.25	10.00
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	11.18	11.18	9.27
1 month	11.41	11.39	9.33
3 months	11.31	11.31	9.47
Bank Holding Companies			
1 month	11.00	10.89	9.07
Dealer Placed:			
3 months	11.68	11.68	9.57
New AA Corporate Utility Bond	14.85	14.88	12.30
Tax Exempt			
6 month Project Notes	5.80	5.75	4.60
1 year AAA Bond	6.60	6.50	5.50
5 year AAA Bond	8.10	8.00	6.45
20 year AAA Bond	10.20	10.20	9.30

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

July 13, 1984

The Federal Reserve is back in its most comfortable role: It is tightening. Fed funds are trading above 11% persistently, a clear step up from their 10½% level when Continental Illinois developed funding problems. Thus the Fed paused in its tightening for less than one month to "calm" the markets. Under Mr. Volcker's chairmanship, the Fed has seemingly been more comfortable tightening than easing. This conclusion follows from the observation that interest rates have increased at a fairly steady pace when they have been rising; but when rates have fallen, they generally have plummeted. The Fed has usually postponed easing until it seemed overdue to the market or until some crisis has precipitated the change. Some examples here are useful.

Since the Fed adopted operating procedures geared to fight inflation in October of 1979, the Fed has eased substantially only twice. The first time was not even a deliberate choice but followed instead from the imposition of credit controls in March of 1980 and the contraction that they produced in the economy and the monetary aggregates. The second easing was precipitated by severe debt problems in the LDCs in mid-1982 and represented a concerted Fed response to that crisis.

The Fed under Volcker has always seemed to have a bias to be on the tight side. Rates generally have risen gradually over long periods of time and fallen sharply over short time spans under his guidance. The funds rate rose from 12% in October of 1979 to over 19% by the end of the first quarter of 1980 (almost six months). In the space of one quarter, this increase was more than reversed as Fed funds fell below 9%. It then took another six months to get the Fed funds rate back up again to 19%. In early 1981 funds fell again, by 5 percentage points, to 15% in one quarter's time. The funds rate rose over the next quarter back to 19% near mid-1981. Fed funds then fell 6 percentage points in a three-and-a-half-month span at year-end. In two months' time, however, rates were back up by 3 percentage points; then they stayed at about the 15% level until the Fed eased in mid-1982.

Since then the Fed's policies have produced less volatile rates. Yet it is useful to bear in mind the Fed's underlying inclinations, especially its tendency to tighten gradually until some significant change occurs. Also we should keep in mind that under the Fed's operating procedures from October 1979 until mid-1982, the market played a much greater role in determining the Fed funds rate than it has since. Thus one thing this history lesson seems to say is that the market will rally with much greater enthusiasm ahead of a Fed that is easing than it will back up ahead of a Fed that is tightening. Given this is the case, we can see why the Fed prefers to maintain a tight policy: It has more control over rates; there is more friction in the system.

Judging from past experience we should expect the Fed to continue to tighten until there is a fundamental change in the economy or some clear and present danger. The Fed did get cold feet and ease somewhat in late 1983 as it felt the economy was weakening. But the economy did not weaken. This mistake should only strengthen the Fed's resolve to keep tight and not make the same mistake again. We therefore continue to wait for the event--a slower-growing economy or something else--that will put the Fed on a less restrictive course.

Robert A. Brusca



	7/13/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	13.00%	13.00%	10.50%
Effective since	6/25/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	10.81	11.00	9.38
Repurchase Agreements	10.75	10.50	9.25
U.S. Treasury Issues			
Bills			
3 months	10.33	10.41	9.42
6 months	11.10	11.17	9.92
1 year	11.90	12.10	10.27
Coupons			
2 years	12.81	13.12	10.76
4 years	13.10	13.56	11.19
7 years	13.23	13.79	11.39
10 years	13.24	13.82	11.42
Long Bond	13.05	13.63	11.43
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.15	11.40	9.30
3 months	11.48	11.75	9.55
6 months	12.05	12.25	10.05
1 year	12.80	13.15	10.40
Banker's Acceptances			
1 month	11.41	11.51	9.32
3 months	11.75	11.90	9.70
6 months	12.27	12.49	10.05
Eurodollar Deposits			
1 month	11.38	11.81	9.82
2 months	11.75	12.06	10.00
3 months	11.88	12.31	10.25
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.16	11.18	9.27
1 month	11.31	11.41	9.45
3 months	11.31	11.31	9.74
Bank Holding Companies			
1 month	10.89	11.00	9.07
Dealer Placed:			
3 months	11.84	11.68	9.62
New AA Corporate Utility Bond	14.38	14.85	12.60
Tax Exempt			
6 month Project Notes	5.80	5.80	4.90
1 year AAA Bond	6.40	6.60	5.50
5 year AAA Bond	8.10	8.10	6.75
20 year AAA Bond	10.05	10.20	8.75

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

July 20, 1984

The long-term credit markets have rallied over the past several weeks. These markets have ignored news that the economy is not weakening. The preliminary real GNP figure to be released early next week is expected to register a somewhat stronger gain than the 5.7% "flash" estimate. And despite news that would generally weigh heavily on the markets, improvement has occurred. What are market participants reacting to? What do they think is going to happen?

Politics as a factor has stepped to the fore. With the Democratic Convention under way (and now over), participants have thought again of the political pressure on the Fed to ease. Monetary policy is not made in a vacuum. The FOMC is aware of political pressures. However, this doesn't mean that the Fed caves in. It means that policy must be conducted in a careful, sophisticated fashion--especially if the Fed feels it must tighten further in an election year. Nonetheless, the proximity of the election does temper what the Fed can do. We will have to listen carefully to Mr. Volcker in his "Humphrey-Hawkins" testimony this coming Wednesday for a clue on what the Fed will do.

Inflation is a factor that seems to indicate the Fed can ease. All measures of price inflation are low; the dollar is strong. But the Fed is not looking at these popular measures of inflation. Rather it is focused on the primary determinants of inflation. Money and credit growth are rapid, too rapid. Capacity utilization rates show little slack left in the economy. Easing policy would weaken the dollar and exacerbate inflation. The Fed has therefore kept its policy tight. Given further strong economic growth, further tightness doesn't seem out of the question at all.

Financial distress is still a factor that tilts toward easing. Funding problems at Continental Illinois have deepened, which tends to make the markets somewhat nervous. Nonetheless, bank earnings statements have been generally positive considering the stricter accounting methods now being applied for problem loans.

The LDCs are grappling with the problems of falling commodity prices and higher interest rates. But nothing in the LDC picture has really changed.

The Fed is weighing these factors, as it always does. It must be impressed with the strength of the economy. Fed funds have continued strong in the face of this growth. The borrowing figures at the Fed's discount window, however, show a mixed pattern. In the last CRA period, banks' adjusted gross borrowings from the Fed were at their lowest level since March 14 of this year. Does this mean that the Fed has eased? Don't bet on it, at least not yet. Fed funds continue firm, and they seem a better reflection of current policy. Banks pay and earn Fed funds rates. Other money market rates also key off of the rates on Fed funds. Little seems to have changed at the short-term end of the credit markets, despite the recent rally at the long end. For a second opinion, in fact, just ask the foreign exchange market.

Robert A. Brusca



Irving Trust

Market Yields

	7/20/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	13.00%	13.00%	10.50%
Effective since	6/25/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	11.00	10.81	9.38
Repurchase Agreements	10.65	10.75	9.20
U.S. Treasury Issues			
Bills			
3 months	10.52	10.33	9.41
6 months	11.25	11.10	9.81
1 year	11.93	11.90	10.15
Coupons			
2 years	12.78	12.81	10.73
4 years	13.09	13.10	11.13
7 years	13.23	13.23	11.33
10 years	13.24	13.24	11.36
Long Bond	13.08	13.05	11.40
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.15	11.15	9.30
3 months	11.50	11.48	9.45
6 months	12.05	12.05	9.95
1 year	12.70	12.80	10.35
Banker's Acceptances			
1 month	11.34	11.41	9.32
3 months	11.74	11.75	9.57
6 months	12.28	12.27	9.92
Eurodollar Deposits			
1 month	11.56	11.38	9.63
2 months	11.75	11.75	9.81
3 months	11.93	11.88	9.94
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.67	10.16	9.14
1 month	11.31	11.31	9.33
3 months	11.25	11.31	9.60
Bank Holding Companies			
1 month	11.00	10.89	9.07
Dealer Placed:			
3 months	11.84	11.84	9.58
New AA Corporate Utility Bond	14.38	14.38	12.60
Tax Exempt			
6 month Project Notes	5.85	5.80	4.95
1 year AAA Bond	6.40	6.40	5.10
5 year AAA Bond	8.05	8.10	7.00
20 year AAA Bond	10.00	10.05	9.00

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 23220

W.U.I. 62832 • French 82629



Irving Trust

Financial Markets

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

July 27, 1984

On July 25 Mr. Volcker delivered his second and final "Humphrey-Hawkins" testimony for 1984, and the markets responded quite favorably--rightly so. In this testimony Mr. Volcker revealed that several problems that previously were bothering the credit markets had been removed. Also, the Fed has taken actions recently that have reinforced the notion that rates can go lower by registering lower adjusted borrowed reserve numbers in the statistics of recent weeks (for two consecutive weeks, borrowings less extended credit have dropped to around \$700 million from the \$1 billion level). Thus a near-term rally seems to be well established.

Technically Mr. Volcker has said several things that brighten the outlook for lower rates. First, he has registered approval that both M1 and M2 have been within their target ranges this year. This seemingly innocuous statement fails to note that M1's velocity has been rising and that M1 is in the upper portion of its target range. Previously Mr. Volcker had indicated that under such conditions the Fed would seek to keep M1 at or below its target mid-point. This is no longer true. Second, he noted that both the credit aggregate and M3 were growing at rates that were too fast, even after accounting for some special factors that bloated credit growth. Yet the Fed failed to set new targets for these aggregates and noted that the targets for M3 and especially that for credit very likely would not be hit. Thus the Fed seems to be saying that monetary policy will not be used to force these aggregates into their ranges. Coupled with the "new view" on M1, this is bullish news. However, in the background there are also less bullish statements.

I attended Mr. Volcker's testimony, and the tone was bullish in comparison with February's session. The above noted changes also are bullish. But the core of his testimony was unchanged: Progress on inflation appears to be good, but budget deficits still are a problem. Most troubling is a passage in the testimony that states that monetary policy has been roughly unchanged since late winter and early spring. Yet during this time span interest rates rose! Fed funds rates climbed from 10% to 11½%. And this certainly isn't a bullish factor, quite the contrary.

Previously most would have assumed that an unchanged Fed policy meant unchanged interest rates; no longer. While it may look like the Fed has been pegging interest rates, that is not true either. It has been smoothing rates and targeting adjusted gross borrowings. Thus interest rates are determined by the economy. In choosing not to target Fed funds, market forces have been allowed to impact market rates quite apart from Fed policy. Thus the Fed views steady borrowings of about \$1 billion at the discount window (excepting Continental Illinois) as even-keeling. Strong credit demands turned this procedure into one that produced higher rates. Thus a neutral Fed policy does not necessarily bring the low rates and the good news for the bond market that it once did. Still the market rallies with the Fed's help. But very clearly there will come a day of reckoning.

Robert A. Brusca



Irving Trust

Market Yields

	7/27/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	13.00%	13.00%	10.50%
Effective since	6/25/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	11.25	11.00	9.50
Repurchase Agreements	10.80	10.65	9.13
U.S. Treasury Issues			
Bills			
3 months	10.66	10.52	9.50
6 months	11.25	11.25	9.97
1 year	11.75	11.93	10.35
Coupons			
2 years	12.57	12.73	10.91
4 years	12.77	13.09	11.37
7 years	12.93	13.23	11.62
10 years	12.92	13.24	11.66
Long Bond	12.83	13.08	11.68
Negotiable Certificates of Deposit-Secondary Market			
1 month	11.05	11.15	9.45
3 months	11.30	11.50	9.60
6 months	11.70	12.05	10.15
1 year	12.35	12.70	10.55
Banker's Acceptances			
1 month	11.15	11.34	9.40
3 months	11.58	11.74	9.70
6 months	11.94	12.28	10.17
Eurodollar Deposits			
1 month	11.38	11.56	9.75
2 months	11.44	11.75	10.00
3 months	11.63	11.93	10.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies:			
1 week	10.92	10.67	9.40
1 month	11.20	11.31	9.45
3 months	11.20	11.25	9.74
Bank Holding Companies			
1 month	10.74	11.00	9.19
Dealer Placed:			
3 months	11.68	11.84	9.63
New AA Corporate Utility Bond	14.05	14.38	13.00
Tax Exempt			
6 month Project Notes	5.80	5.85	4.95
1 year AAA Bond	6.35	6.40	5.50
5 year AAA Bond	8.00	8.05	7.00
20 year AAA Bond	10.00	10.00	9.30

This information represents prevailing market yields.
It should not be construed as an offering.
 All yields are on the offered side of the market.

Cable Address:
 "IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
 W.U.I. 62832 • French 82629